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China Report

ECONOMIC AFFAIRS

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16 MARCH 1987

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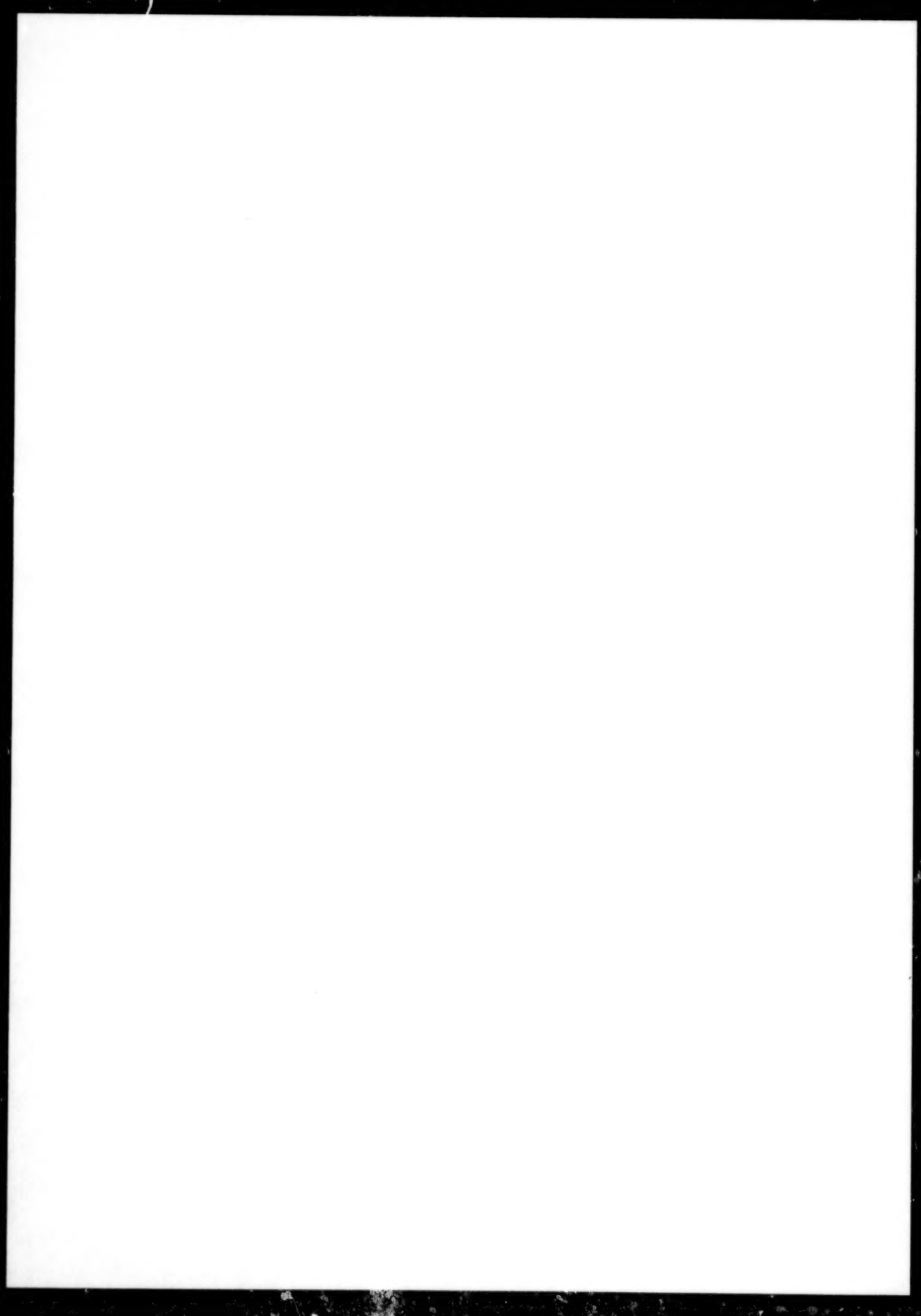
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NATIONAL AFFAIRS, POLICY

GUANGMING RIBAO ON ENTERPRISE REFORM DIRECTION

HK210625 Beijing GUANGMING RIBAO in Chinese 3 Jan 87 p 3

[Article by Chen Wentong (7115 2429 6639): "The Direction of Structural Reform in Enterprises Under the System of Ownership by the Whole People]

[Text] As the economic structural reform deepens, it is imperative to change the relationship of ownership in the internal departments of enterprises under the system of ownership by the whole people. The problem at present is what direction the change should follow to conform to the purpose of building socialism with Chinese characteristics. In my opinion, change should be effected in the following three ways:

Legal Ownership of State Assets Should Be Separated From Economic Ownership of Enterprises

In transforming the existing enterprises under the system of ownership by the whole people into genuine commodity producers and handlers capable of assuming full responsibility for their own losses and profits, one fundamental economic prerequisite is that on the one hand, enterprises should use state-owned means of production with compensation and, on the other, they should become owners of their own products. Otherwise, commodity economy will exist only in name. Then can the ownership of assets owned by the state on behalf of the entire people be "transferred without compensation" to enterprises? It cannot. The wealth owned by the whole people comes from the net revenues provided by all of society's laborers. It is owned by all laborers, with the state as their representative. It embodies the overall, fundamental, and long-term interests of the whole people and constitutes the most important economic base of socialism. Therefore it brooks no division. No one shall turn the public ownership of a higher level into that of a lower level in this regard. The solution to this problem is to separate the legal ownership of state assets from the economic ownership of enterprises. As the central decision on the reform of the economic structure says: "Ownership can be duly separated from the power of operation."

If this thinking is correct, the relationship between the state and the enterprises under the system of ownership by the whole people must be a dual relationship, as follows: On the one hand, laborers of the enterprise combinations actually own and directly operate the means of production owned by the whole people, with the state as the medium, and thus form one facet of

society's overall combined labor and, on the other, the relationship between the state and enterprises is a special relationship of borrowing and lending or leasing, a relationship which is socialist in nature. As for the form of borrowing and lending, the state is entitled to collect interest from lending fixed assets, like bank loans, and with regard to the form of leasing, the state is entitled to collect rents. What I have discussed here is merely confined to general economic terms. In reality, there can probably be other specific forms. This being the case, it is necessary to make an inventory of assets and to fix the relationship between the state and the enterprise in a particular form of contract.

The Funds Officially Owned by an Enterprise Through Accumulation Should Go to the Enterprise as a Collective

If the relationship between the state and the enterprises is fixed in the above-mentioned economic forms, enterprises can no longer eat from the "same big pot" of state funds. Meanwhile, apart from the interest (or rents) and taxes (of course, this does not refer to the present all-inclusive "taxes") paid by enterprises to the state in accordance with the stipulations prescribed by their contracts, the rest will be all their own. With all this done, enterprises can thus genuinely assume full responsibility for their own losses and profits.

If an enterprise has a surplus after compensating for production costs, in order to develop itself, it will inevitably put part of its officially owned funds aside as accumulation funds and use them in technological transformation and expanded reproduction. These accumulated officially owned funds of enterprises belong to the enterprises collectively, rather than the state, in terms of property rights. Hence, there is the ownership of assets by enterprise collectives along with the existing ownership of state assets. In terms of the ownership structure of the internal departments of enterprises, enterprise collectives seem to be exactly like joint-stock enterprises and, judged by the methods of operation, they are not joint-stock enterprises at all. This is because state assets are used in the form of borrowing and lending or leasing rather than the form of direct buying of stocks. Therefore, the state need not and must not participate directly in the operation of enterprises. However, it is necessary for the state to check on state-owned assets through auditing and procuratorial departments.

The emergence of collective ownership in the internal departments of enterprises under the system of ownership by the whole people and the formation of a relationship of dual ownership are the logical results of the separation of ownership and the power of operation. This collective ownership is cumulatively created on the basis of the combined labor of enterprises rather than on the basis of the division of state ownership. Far from endangering the existence of ownership by the whole people, this collective ownership will help the state concentrate funds on the construction of key development projects and thus contribute to the constant growth of state assets. As I see it, there is no need to worry about whether the collective ownership of enterprises will one day proportionally surpass state ownership. Upholding the leading position of ownership by the whole people does not necessarily mean that state ownership must occupy a predominant position in

every enterprise, just as we do not demand the system of ownership by the whole people be introduced into society's economy as a whole. Nevertheless, if we divide ownership of state assets into shares, or simply change ownership by the whole people into ownership by enterprise collectives, as advocated by some people, this is quite a different thing.

Employees Should Be Allowed To Use Their Surplus Income as Capital to Buy Stocks for Themselves

As indicated by the ownership relationship I have mentioned above, in the internal departments of enterprises, laborers are completely equal in regard to the relationship of possession of the means of production. In reality, their status is a four-fold one. First, a laborer is one of the owners of the means of production, and this kind of ownership is realized economically in the form of various kinds of redistribution, with the state as the medium. Second, he is one of the actual owners and specific handlers of the means of production owned by the whole people and he earns income from his own labor, with the enterprise combination as the medium. Third, he is one of the owners of the enterprises' officially owned funds, and this ownership is realized economically in the form of extra dividends, with the enterprise combination as the medium. Fourth, as a master of the enterprise combination, he participates in its operation and assumes any risks therefrom. The argument asserting that the ownership of laborers can be realized only when individual laborers possess the stocks of their enterprises is obviously not in keeping with the facts, because "individual ownership" based on cooperative labor contributed by laborers and joint ownership by enterprises (but not completely joint ownership by society) has been initially achieved.

However, at the present stage of socialism, now that all laborers are not ideally equal in regard to the actual possession of the means of production, nonsocialist economic sectors are allowed to exist. Therefore, it is not necessary to demand that a single ownership form be practiced in the internal departments of all enterprises under the system of ownership by the whole people. As I see it, employees should be allowed to use their surplus income as capital to buy stocks for themselves. Hence, there will be an element of private ownership in the internal departments of enterprises under public ownership. The essence of this proposal is to allow individual laborers to earn extra income by relying on their own funds (rather than exclusively on their animate labor). This extra income is essentially different from income earned under the system of distribution according to work and also somewhat different from income earned from ordinary savings deposit interest. The use of individuals' cash income as capital will further widen the existing disparity in prosperity between laborers but, generally speaking, this will bring more advantages than disadvantages. It can arouse the enthusiasm of individual laborers to the full and help expand society's productive forces. Of course, some restrictions on the proportion of stocks to be bought by employees using their surplus income and on the amount of money used to buy stocks are necessary. As for the question of whether these stocks owned by individuals can be transferred or traded on the market, it will be considered together with the opening of money markets. I shall leave the subject there.

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CSO: 4006/350

NATIONAL AFFAIRS, POLICY

GUANGMING RIBAO ON PUBLIC OWNERSHIP ISSUES

HK261531 Beijing GUANGMING RIBAO in Chinese 10 Jan 86 p 3

[Article by Zou Liang (6760 0081): "Tentative Views on the Structure of Economic Power Under Ownership of the Whole People"]

[Text] The fundamental purpose of the reform of the ownership system is to establish a structure of economic power that suits China's national conditions and can give full play to the role of economic power in economic activities. This article will tentatively probe into ownership, power of control, and right of operation and management--the three major economic powers under ownership of the whole people.

The Meaning of Ownership, Power of Control, and Right of Operation and Management

As usual, the term ownership is defined as one's exclusive rights of use, control, or transfer. The limitations of this definition are indicated in the following: First, it can only be used to tell who is the owner rather than judge how much power he possesses; and second, it cannot explain the phenomenon of owners who do not have the power of control in a social economy. To study the role of ownership in the law of the economy, it is necessary to further develop its concept. Here I would like to define the economic significance of ownership as permanently enjoying the rights and undertaking the obligations of the benefits and losses gained by means of control, use, operation and management, and transfer. There are many benefits by explaining the term ownership in this manner. First, it has created conditions quantitatively for the distribution of ownership. For example, when the owner is a group and there is a common standard for measuring the benefits (including losses) of members of this group, the extent of ownership shared by every member can be defined by the share of benefits. Second, this definition permits the owner to directly control and use his possessions. This, however, is not definite. If the possessions used by others by means of exchange can bring about more benefits to the owner, a very natural phenomenon will be the separation of ownership from the right of use. The thing of further importance is that this definition links ownership with the undecisive natural and social factors and points out that ownership exists within an unpredictable economic environment. Therefore, the possession of ownership indicates undertaking of risks.

Power of control under ownership of the whole people means: First, the powers of directly appointing and removing management personnel, working out remuneration plans, defining the functions and responsibilities of operators, and examining and approving major policy decisions for operation. Second, the powers of enacting macroeconomic, financial, monetary, and pricing policies. The purpose is to create a reasonable external environment for nationwide economic activities and realize the goal of the macroeconomy through these indirect means. The right of operation and management mainly refers to decisionmaking power regarding specific production, supply and marketing, personnel and financial affairs at grass-roots levels, and small scale research and development.

There is no definite line of demarcation between control and operation that forms a unity of opposites. The greater the range of control, the smaller that of operation feasibility. When control reaches the extent of depriving operation of decisionmaking power, it is tantamount to negation of operation and obliteration of the meaning of control itself. Consequently, the controller becomes an operator. Nevertheless, operation cannot be carried out without control because the former is only responsible to the individuals. A situation that is out of control can neither lead to realization of the general objectives nor guarantee the attainment of the objective of individual operation.

Ownership by the Whole People Will Inevitably Lead to Separation of the Rights of Proprietary, Control, and Operation

Separation of the rights of proprietary, control, and operation is actually a 2-level separation of ownership of the means of production from the actual means of production. The first level refers to separation of ownership from power of control. Under ownership by the whole people, the entity that exercises control is the relative administrative organs of the state which apply economic, legal, and administrative means to ensure that the operation and management of the means of production reflect the greatest interests of all the people. The separation at the first level leads to the question of agents at this level. The first reason is the possible conflict of interests between the owner and the controller. Although the state administrative organ as a whole is the loyal representative of the people, the policy decisions are to be carried out by people. These people may have the selfish interests of individuals or small groups. When the selfish interests conflict with the overall interests of the owner, it may induce the controller to make policy decisions that run counter to the interests of all the people. The control entity is a huge administrative system with many levels and branches. People who exercise control within each level or branch have more or less power of making policy decisions. If they put in their own varying policy decisions such as individual political status and risks and their individual interests while judging problems, the final policy decisions made by the overall control organ will go astray and the people's interests will be encroached upon. The second reason is that the control structure is composed of imperfect cadre and legal systems, backward management and information transmission systems, and other factors that result in low efficiency and high consumption of the entire control system. These two complementary reasons are the roots of the

unhealthy tendencies within our administrative organs which include bureaucracy and jobbery.

The second level is the separation of power of control from the right of operation and management. The complex nature of operation activities and the needs or division of labor rules out the hypothesis that the controller is definitely wiser than the operator and will not allow the controller to take part in making every policy decision. For this reason, the dual policy-making bodies in which control is relatively separated from operation will inevitably appear under ownership by the whole people. The current popular saying that the separation of ownership from the right of operation and management is actually the separation at this level. This gives rise to the question of agents at the second level. The contradiction between enterprises and the state is expressed in enterprises seeking excessive funds, raw materials, and low quotas under direct control and in enterprises restricting production and raising prices, seeking benefits for themselves, and neglecting the external or social effect of production investment under indirect control. Proceeding from their strategic consideration, enterprises may intentionally tend to conceal and distort the true facts. Under such a phenomenon, it will be difficult for the controller to distinguish genuine from sham even when enterprises disclose the true facts. Naturally, it is not recommendable in socialist public relations to exaggerate the selfish, deeprooted bad habits of the operators. We should never accommodate such practices in working out regulations and tactics.

There are both advantages and disadvantages in the 2nd-level separation of ownership from the right of operation. The advantage of the separation at the first level is mainly expressed in the superiority of ownership by the whole people because this is the necessary condition of the system. The advantage of the separation at the second level is mainly expressed in the strong points of social division of labor and the effective role of the means of production brought into full play in reproduction. The disadvantage of the separation is the conflict of interests between individuals, parts, and the whole. This conflict impels us to face the problem as it is being exaggerated by the limitations of people's knowledge and ability and the limitations of the information structure, existing social relations, and the level of productive forces.

Reform of the Ownership System Should Be Aimed at Maintaining Harmony Between Ownership and Right of Operation and Management

In accordance with the separation of ownership, power of control, and right of operation, the characteristics of China's existing system can be summed up into the following: The undue separation of ownership from power of control, the undue harmony between power of control and right of operation and management, and the undue separation of ownership from right of operation and management. Only the concealed form can be adopted in the conflict of interests and separation at the first level because it is not allowed by party discipline and state laws. For this reason, it is not easy to exercise supervision. The problems at this level can be solved mainly through political and legal means, such as strengthening discipline and the legal system, reducing the staff and simplifying administrative procedures,

reforming the irrational administrative management system and outdated cadre system, and separating party leadership from government administration. The recent call for development of lateral ties focused on cities and encouraging cities to organize and carry out economic and management activities are also the measures adopted to reduce separation and enable the functions of control to meet the interests of owners. Moreover, giving full play to the role of the market mechanism is also an effective means enabling owners to take part in control through selection of commodities.

The conflict of interests in the separation at the second level is usually open, acknowledged, and even legal. As it is mainly expressed in the conflict of economic interests, it should be solved by economic means, such as establishing and perfecting economic laws and supervision and enhancing the effectiveness and rationality of control. With the expansion of the decisionmaking power of enterprises and reduction of direct control by the state, the conflict of interests between enterprises and the state will also be harmful. The delegation of right of operation without ownership is bound to lead to the practice of enterprises sitting idle and exhausting all resources. Recently, some enterprises went so far as to sell off factory machines to issue bonuses. This is a typical example of a lack of proprietary rights. Naturally, the purpose of delegating the right of ownership is to increase production efficiency and encourage enterprises to take long-term interests into account rather than solving the above conflict of interests. This conflict of interests is an objective reality. It can only create convenient conditions for certain "agents" to seek "benefits of authority." Actually, it is a practice of unequal distribution covered by the relation of equality. To delegate the right of ownership and have it coincide with the right of operation is precisely the effective way to eliminate and weaken such irrationality. Following the delegation of proprietary rights, the state should adopt effective indirect means of control to guide enterprises in seeking overall interests. There is another question that merits attention. The conflict of interests implied in the separation at the second level demands the state not to give up all power of direct control, particularly regarding the major enterprises that are of vital importance to the nation's economy and the people's livelihood.

This author believes that China has a rare, favorable condition for carrying out reform of the ownership system, that is, the fairly equal income of the people and financial resources resulting from the equal public ownership system. On this basis, the transfer of ownership of some means of production at fair prices to social members who have the ability to operate and have the courage to undertake risks can give full play to the positive role of proprietary rights and also does not run counter to social principles.

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CSO: 4006/350

FOREIGN TRADE, INVESTMENT

GUANGDONG'S SUCCESS IN ABSORBING FOREIGN CAPITAL

Guangzhou YANGCHENG WANBAO in Chinese 7 Dec 86 p 1

[Article by Huang Shouqing [7806 1108 1987]: "Four Thousand Foreign Businessmen Open Firms in Guangdong; Guangdong Ever More Successful in Attracting Foreign Capital; Guangdong Foreign Firms Account for Approximately 60 Percent of All Foreign Enterprises Nationwide"]

[Text] Yesterday morning at the Guangdong Conference on Foreign Economic Relations and Trade, Wang Pingqiang [3769 0756 3237], vice minister of Foreign Economic Relations and Trade, and Yu Fei [0060 7378], vice governor of Guangdong Province, both indicated that Guangdong's exports this year are doing better than ever before; foreign investment in the province is also entering a stage of healthy growth.

As of the end of November, Guangdong's exports for this year amounted to \$3.7 billion, exceeding the whole year's export assignment by 28.7 percent and increasing by 39 percent over the same period last year.

A thorough survey was undertaken of the present foreign investment situation throughout the province, with an emphasis on solving existing problems, and operations by foreign firms have taken a turn for the better. From January to September, the province gave approval to 531 enterprises to start operations (of these, 221 were joint venture enterprises, 302 were contractual joint ventures, and 8 were wholly foreign-owned enterprises). Of this year's new projects, 84 percent were production-type projects, and many of them have introduced advanced technologies and equipment of the early 1980's greatly increasing the proportion of products sold abroad. Guangdong now has foreign businessmen from more than 20 countries and regions who have come to open firms here, accounting for approximately 60 percent of all foreign enterprises country; the amount of foreign capital actually utilized amounts to more than \$2.8 billion, accounting for 52 percent of all foreign capital utilized in this country.

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CSO: 4006/235

FOREIGN TRADE, INVESTMENT

NEW ANHUI MEASURES TO ENCOURAGE FOREIGN INVESTMENT

Hefei ANHUI RIBAO in Chinese 11 Dec 86 p 1

[Unattributed article: "Foreign Investment in Anhui Encouraged; Provincial Government Issues Several Provisions"]

[Text] In order to induce more foreign companies, enterprises and other economic entities and individuals to invest in Anhui, the provincial people's government has just formally issued "Several Provisions To Encourage Foreign Investment." The gist of these provisions is as follows.

--Lowering land-use rates: where cumulative development and use fees are levied, exporting firms and advanced-technology firms will be assessed from 3 to 10 yuan per square meter per year; where one-time development fees are levied or where enterprises do their own site development, no fees are levied for the first 5 years, and in subsequent years fees will not exceed 1 yuan per square meter per year.

--Tax reduction or exemption: Chinese-foreign joint and cooperative enterprises engaged in developing and exploiting energy, communications, raw materials, and basic facilities are to enjoy reductions in or exemptions from income taxes for the first 5 years, according to national provisions; at the end of this period, and with approval, the period during which enterprises pay half their income taxes may be extended. Chinese-foreign joint and cooperative enterprises engaged in such low-profit fields as agriculture and forestry, or operating in areas determined by the province to be undeveloped, enjoy income-tax reductions or exemptions for the first 5 years, according to national provisions; at the end of this period, and with approval, they may continue to enjoy a 30-percent reduction in their income taxes for 10 years. If an advanced-technology enterprise experiences difficulty in paying taxes after the expiration of the stipulated period of tax reduction or exemption, the period during which it pays half its income taxes may be extended, with approval. All foreign enterprises are exempt from local income taxes.

When the supply of construction materials and means of production required by a foreign enterprise is subject to plans, the responsible departments at all levels will give priority to including these items in their plans, with prices and supplies being the same as for local state-run enterprises. Quotas for fixed-asset investment loans for the Chinese partner in a foreign enterprise

and working-capital loans for enterprises are to be treated as special items; after review by the appropriate bank, these loans are to be issued on a priority basis.

--When a foreign enterprise produces in China products that are basically the same in terms of function, quality, and price as products that must be imported, the proportion of such products sold on the domestic market may, with the approval of the appropriate department, be expanded to the totality of such products, and these products may be paid for in whole or in part with foreign exchange.

--Simplification of approval procedure to improve operating efficiency: Project proposals and feasibility studies regarding foreign enterprises submitted to the responsible departments of the provincial government are to be approved within 15 and 30 days, respectively. Contracts (including charters) and applications for registration are to be approved within 20 days. When it is necessary to submit items to higher agencies for approval, they must be submitted promptly and handled through positive liaison.

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CSO: 4006/235

FOREIGN TRADE, INVESTMENT

JAPANESE INVESTMENT IN SHANGHAI INCREASING

Hong Kong WEN WEI PO in Chinese 24 Dec 86 p 2

[Article by Morino Yuzo [1343 6851 0645 6644], Shanghai representative of the Japan Trade Promotion Association, translated by Mo Lijiao [5459 7787 6222]: "Japanese Businessmen Increase Investment in Shanghai"]

[Text] Japanese companies in Shanghai can be divided into two main categories, offices and factories.

First, let me discuss offices in Shanghai. After the Sino-Japanese Peace and Friendship Treaty was concluded in 1978, offices of Japanese businesses were formally established in Shanghai.

At the time, most Japanese businessmen assigned to Shanghai were able to open offices at the Peace Hotel, Shanghai Mansions, or the Mianjiang Hotel. Each business office employed one or two Japanese staff members, but these offices had not been recognized by the Chinese Government, so that they had no local staff, could not install direct telephones, and could not display their corporate signs on their doors.

During that period, Japanese businessmen were all very concerned about their entry visa time limits. When they entered Chinese territory, they were ordinarily allowed maximum stays of only 3 months; in principle, they were allowed a 1-month extension after the 3 months, and only two or three extensions were allowed.

According to provisional regulations issued in October 1980 to control the creation of companies in China by foreign and Hong Kong and Macao enterprises, foreign representatives in China would be approved as residents as of July 1981, and eight Japanese firms were also formally permitted to do business.

By the end of 1981, Shanghai had more than 30 Japanese companies; by the end of 1984, the number had increased to 40, and in 1985 there were 100. As of the end of June of this year, the total number had reached 111.

Japan today has approximately 2.4 million nationals living abroad, and this number increases by about 4 percent each year. This figure shows that the ratio of Japanese in China is quite noteworthy, and Shanghai is no exception.

There are more than 800 Japanese in Shanghai, including businessmen and their dependents, consular personnel, reporters and students. They are followed by the Americans, with about 300, 150 Germans, 100 each of French and Britons, and 25 Canadians. In short, Japanese account for half the foreign community in all of Shanghai.

Most of the Japanese living in Shanghai are unable to bring along their dependents, due to the housing situation, costs, and other factors. However, this situation is being improved, and at the same time the Japanese Government has agreed to subsidize the construction next year of a Japanese school in Shanghai.

There are 28 Japanese companies with enterprises nominally constituted in Shanghai, 19 of which are of the joint-capital variety. Of these 19, 11 are production-oriented, and 8 are in the hotel and company construction trades. The remaining nine were established with the authorization of the local government.

Out of a total investment in excess of \$200 million, 95 percent was used to build hotels, like the Pacific and Cypress hotels; the remaining investment of some \$400,000 was applied to industrial projects. As shown by an analysis in the LIBERATION DAILY of 30 July, most of the industrial-investment projects are labor intensive, producing such products as sandals or suitcases.

Now let me discuss the trade relationship between Japan and Shanghai and its environs.

According to statistics published by Shanghai, the city's total imports continue to increase, whereas exports have declined sharply. The decline in Shanghai's exports is affected by the policy on the 14 coastal cities. This is because Shanghai's hinterlands, such as Jiangsu and Zhejiang, are able to trade directly with foreign countries, and at the same time they have opened up many of their own ports such as Nanjing, Nantong, and Ningbo to support their export trade.

Last year, Shanghai's own exports amounted to \$2.65 billion; transit amounted to \$710 million. In 1980, Shanghai's export total was \$4.27 billion. This figure clearly illustrates the sharp decline in exports. Part of the reason for this may be that neighboring provinces are beginning to trade directly with foreign countries.

In terms of the Seventh 5-Year Economic Development Plan, Shanghai is attempting to promote its own local trade rather than to increase transit trade. The value of transit trade in 1990 is forecast to amount to only \$30 million.

Last year Shanghai's main trading partners were: Hong Kong (\$544.46 million), the United States (\$472.7 million), Japan (\$363.36 million), West Germany (\$29.56 million), Singapore (\$110.2 million), Great Britain (\$92.2 million), Australia (\$80.82 million), Switzerland (\$75.82 million), Iran (\$66.45 million), and Canada (\$65.66 million).

Japan is in third place, behind only Hong Kong and the United States. I do not have at hand data on Shanghai's export goods by category and therefore cannot explain the structure of Shanghai's trade with Japan.

However, I reckon Shanghai's exports to Japan to consist mainly of textiles, such as cotton shirts, etc.; agricultural products, such as tung oil and sesame oil; chemicals; and small quantities of machinery and electronic goods.

I have no statistics for Shanghai's imports by category, but it is estimated that they come mainly from Hong Kong, the United States, West Germany, and Japan. Hong Kong and Japan are closely related in many respects. It is likely that goods, machinery, and equipment from the United States and Europe reach Shanghai via Hong Kong.

Hong Kong and Japan have close relations in many areas. Even American and European products, machinery, and equipment go through Hong Kong before reaching Japanese companies in Shanghai. Some policymakers are more impressed by European and American brands than by Japan's.

At this stage, Japanese companies are very eager to import goods from China, because we know that unless China has foreign exchange we will be unable to export to China. However, China has now opened up trade routes between it and foreign enterprises, and Japanese businessmen must also buy goods from China that are suited to the Japanese market. The goods sent by Japan to China are primarily machinery and equipment, iron and steel, etc. These goods account for 80 percent of all exports. The goods we import from China are petroleum, textiles, and foodstuffs, accounting for 70 percent of imports.

Japan's trade with China is relatively difficult, and therefore attention must be paid to the following points:

Every effort should be made to make more contacts with Chinese business circles. Geographically, Japan and China are very close. It is only 3 hours from Tokyo to China, 2 hours from Osaka, and 1 hour from Nagasaki. Japanese companies are always willing to send their chairmen or presidents to China for closer contacts with senior Chinese officials. A Japanese company just arrived on the Chinese market can obtain basic information from the Japan Trade Promotion Association or some other specialized body such as the Japan-China Economic Association. Japanese banks and businesses are all sources of trade information.

More international trade practices should be learned from the Japanese side. The content of contracts signed should be carefully examined to determine whether the delivery times and payment procedures are correct.

Human resources: very few people fluent in Chinese are well-versed in international trade, and they have little contact with influential Chinese.

Japan's goods and machinery are famous. Through constant contacts, accumulated experience and expanded public relations, the Chinese will ultimately be able to enjoy Japanese goods.

Japanese businessmen should all understand that there is a difference in market conditions between Japan and China.

China has a great many flexible support industries that are beneficial to Japanese firms.

Exporting Chinese goods to third countries: Japanese trading companies have a global network, and one of their most important activities in Shanghai is to assist China in exporting its goods to third countries.

The powerful Japanese yen, and weak trade: it is no exaggeration to say that Japanese offices now in China are extremely eager to purchase from China those goods that are marketable on the world market.

13322

CSO: 4006/235

ECONOMIC ZONES

EXPANSION OF JOINT VENTURES IN TIANJIN DISCUSSED

Beijing LIAOWANG OVERSEAS EDITION in Chinese No 37, 15 Sep 86 pp 17-18

[Article by Cong Wenzhi [0654 2429 3320]: "Tianjin Chinese-Foreign Joint Ventures Enter Expansion Phase"]

[Text] Tianjin set up its first Chinese-foreign joint venture in 1979 and since then has passed through the experimental and initial stages and is now entering the expansion phase. So far 164 joint ventures set have been established in the municipality, and of the total investment of \$566 million, \$275 million (49 percent) is foreign.

These ventures involve more than 20 different fields, including industry, animal husbandry, international shipping, restaurants and hotels, entertainment facilities, design and outfitting and technical consulting. There are 102 industrial ventures, 62 percent of the total. Foreign investors have come from more than 10 countries and regions: the United States, Japan, Singapore, Great Britain, France, the FRG, Denmark, Australia, Canada, Malaysia, Philippines, Thailand and Hong Kong. The Hong Kong region has invested in and set up the largest number of joint ventures in Tianjin, a total of 76, accounting for more than half the amount invested by foreign businesses. After Hong Kong come the United States and Japan.

In the initial stage, Tianjin's joint-venture contracts were quite crude due to the municipality's lack of experience, and by the end of 1982, only seven joint ventures had been initiated, of which three had started production. The rapid take-off of joint ventures took place from 1983 to 1985. In this period, Tianjin signed agreements establishing a total of 145 joint ventures, of which 55 have started production.

The First Investors Profit First

According to responsible members of the Tianjin Foreign Economic Relations and Trade Commission, the first investors to enter Tianjin have profited earliest. The experience of these investors in establishing joint ventures in Tianjin has shown these investors that the municipality is one of the least risky environments for overseas investment. Sixty-four joint ventures have already started production, and in the first half of this year, joint-venture business volume totalled more than 137.9 million yuan, equal to 81 percent of the total

turnover for all of last year, and profit margins averaged 19.7 percent. Chinese banks hold \$10.99 million in foreign exchange, foreign-exchange supplies are steady and there is even a surplus, a favorable balance of \$1.44 million.

According to statistics for the 31 joint ventures which have been in production for more than half a year, sales revenues for these ventures totalled 165 million yuan, profits totalled 36.71 million yuan and profit rates averaged 22.7 percent. Industrial joint ventures have shown the best results, accounting for 70.98 percent of the total volume of business and boasting sales profit rates of 24.23 percent. Tianjin's joint ventures now employ more than 6,000 workers, worker productivity in these firms is more than twice that of the municipality's independent-accounting industrial enterprises, and the firms boast higher sales volumes and profit rates than state-run enterprises of the same size and operating under the same conditions. The Huayi Corp, Ltd, a joint venture established by Tianjin's Huaguang Electronic Instruments and Parts Factory and the [Soi 0482 1942] Corp of Japan, manufactures for export miniature light bulbs for electronic watches. Within one-half year, this small plant employing only 43 workers earned more than \$2,370 in foreign exchange per worker. The Liming Cosmetics Company, jointly operated with a company from the FRG, made a profit in its first year of operation, which development the German manager of the company said was "truly unexpected," and the company's high quality cosmetics are making a name for themselves on the French market.

"We Must Consider the Interests of the Other Party"

Why is it that Tianjin's Chinese-foreign joint ventures are able to grow in a healthy way? Vice Mayor Li Lanqing [2621 1526 3237], in an interview with this reporter, stated his watchword in this work: "To do a good job with joint ventures, we must consider the other party's interests."

Li Lanqing is the vice mayor in charge of foreign economic relations and trade. Before coming to Tianjin, he held a position in the Foreign Investment Administration of the Ministry of Foreign Economic Relations and Trade, which post gave him many years of experience in foreign economic relations and trade. He also speaks fluent English, is familiar with relevant rules and regulations and has a firm grasp of the progress made in and the problems affecting each joint venture, and thus many foreign businessmen are very willing to deal with him. With the present, still imperfect legal system, it is a real plus for Tianjin's joint ventures to have such a vice mayor in charge of using foreign investment.

In the initial period in the establishment of joint ventures, some Chinese thought that foreign businessmen are incredibly rich, did not understand prices on the international market, charged exorbitant rates for labor, land use and energy, and thus failed to reach agreements on many projects and caused long delays in finalizing contracts that should have been signed early on. At various conferences, Li Lanqing has frequently criticized this mentality, which is riveted entirely on the foreign businessman's wallet, and he has emphasized that in order to meet the needs involved in attracting foreign investment, we must improve the investment environment and raise work

efficiency. He also frequently tells Chinese managers of joint ventures that their duty is to serve the venture, not to serve Chinese interests alone.

To promptly solve problems encountered by enterprises capitalized with foreign investment, the municipal Foreign Economic Relations and Trade Commission has set up a foreign enterprise management office to provide research and coordination work for joint ventures. The municipal government has also established a joint business conference, which is held biweekly and attended by 15 departments, committees and offices belonging to the municipality. At the meetings of this conference, Chinese and foreign managers, especially the latter, are asked to give their opinions and make requests so that soluble problems can be dealt with on the spot.

For example, after more than a year of operation, the Tianshan Agricultural Fruit and Foodstuff Development Co, Ltd, a joint venture between Tianjin and Japan, was losing money due to poor management and was in danger of having to close down. Relevant municipal departments were very concerned about this situation and thus forced the Chinese partner, the Yaohua Agriculture, Industry, and Commerce Co, which lacked the necessary qualifications for the job, to withdraw from the venture and give its shares of stock to a more qualified Chinese firm. These measures allowed the joint venture to undergo a fundamental transformation without changing its name or increasing paid-in capital. The Japanese general manager, full of confidence in the prospects for new cooperation, immediately provided more than \$1 million in working funds for the development of new products.

Based on statistics for the joint ventures already in operation, foreign businesses have earned an average net profit margin of 19.7 percent on their investments in Tianjin, a level that is more than twice the interest rate on savings deposits in international banks. As for those foreign businessmen who, upon return to their countries, refuse to acknowledge their profits or even complain about losses, this only goes to show that people everywhere are loath to "reveal their wealth."

Joint ventures in Tianjin have played a prominent role in importing advanced technology and equipment and improving product quality, developed a number of new products that meet international standards of the 1980s, and upgraded many old products.

The Jinrong Co, Ltd, a joint venture between Tianjin's Jinhua Radio Factory and a Japanese firm, manufactures mechanical components for tape recorders assembled in the Jinhua plant. By importing new die-design technology and developing new components, this factory, which used to import dies, now exports them and has increased its mechanical-component productivity by 250 percent, has sold 300,000 such components on the international market this year, and thus is no longer unable to export its components. In one leap, the factory went from red ink to being one of the three largest tape recorder producers in China, with an annual output of 100 million yuan and a profit of 10 million yuan. Through joint ventures, Tianjin's foodstuffs, cosmetics, light industrial and electronic products and machinery have also entered the international market.

Tianjin Is Quite Attractive to Foreign Businesses

In recent years, Tianjin has made a great effort to improve its investment environment, relevant departments have formulated preferential measures enabling foreign businesses to make a profit, and the municipality has built a number of high quality hotels, making foreign businessmen more satisfied about working and living in Tianjin. Of course, the most important thing is that most Chinese-foreign ventures are obtaining noteworthy economic results.

For many reasons, foreign investment in China during the first half of this year was at a low point, but Tianjin signed 19 joint venture-contracts, greatly increasing the total amount of foreign investment in the municipality to more than \$100 million.

12919

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ECONOMIC ZONES

LATERAL OPENING UP OF SHANGHAI DISCUSSED

Beijing LIAOWANG [DOMESTIC EDITION] in Chinese No 36, 8 Sep 86 p 35

[Article by Xia Ruge [1115 0320 7041] and Zhuang Kaixun [8369 0418 8113]: "The Lateral Opening Up of the Port of Shanghai"]

[Text] The Big Port Encounters New Problems

Rui Xingwen [5360 2622 2429], Secretary of the Shanghai CPC Committee, recently made a significant statement at the Shanghai branch of the Xinhua News Agency: "The prosperity of Shanghai's economy will be determined to a large extent by whether or not there is vigorous growth in lateral economic ties. We can also say that if lateral economic ties are not developed, Shanghai will have a hard time surviving."

Recent changes at the port of Shanghai provide compelling evidence for this point. During the Sixth 5-Year Plan, Shanghai's imports and exports accounted for 9.5 percent, and the municipality's exports accounted for 15.6 percent, of the national total. However, in the past 2 years, Shanghai's foreign trade has not grown as fast as one would wish. Exports, which affect everything, are going nowhere. In 1980, Shanghai's exports set their highest record, \$4.26 billion, but in the past 2 years, they have been hovered around \$3.3 to \$3.6 billion, unable to hobble ahead.

A fundamental cause of this situation is that, following restructuring of the foreign-trade administration, provinces and municipalities, which used to supply the port of Shanghai, now have the authority to engage in exporting themselves. This has greatly reduced the supply of goods for export from Shanghai.

Statistical data reveal that in 1980 4.5 billion yuan of exports were routed into Shanghai from other places, equal to 36 percent of Shanghai's total foreign-exchange receipts for that year, but that in 1984 only 2.3 billion yuan of exports were supplied from elsewhere, equal to 19 percent of the municipality's export foreign-exchange receipts that year. "Great Shanghai" has encountered a string of new problems engendered by foreign-trade restructuring.

Stop Putting on Airs, Develop Lateral Sourcing

The Shanghai Foreign Economic Relations and Trade Commission invited a group of "old foreign traders" and specialists to discuss policies to deal with the problem. These experts concluded that the fundamental way to assure uninterrupted growth in Shanghai's export supplies is to strengthen the municipality's economic ties with the interior. Only by smashing vertical and horizontal institutional barriers and by truly implementing mutually beneficial lateral integration will it be possible to change the situation wherein the interior "has goods but no access to markets" and Shanghai "has customers but no goods." In addition, we should vigorously develop Shanghai's products and expand its production capacity.

In order to strengthen lateral integration, Shanghai's foreign trade departments have decided to help interior provinces and municipalities manage their own exports and are establishing a variety of ties, each of which is selected in accordance with the nature of the commodities involved and with the principles of voluntary participation, mutual benefit, exploiting comparative advantage, avoiding one's weaknesses, and joint development.

The current forms of integration between Shanghai and other places are: negotiated allocation, joint management, jointly run factories, serving as export agents, buying up entire lots of goods, and separate delivery following conclusion of unified transactions. The port of Shanghai places special emphasis on providing additional, more sophisticated processing of raw materials and primary products supplied by other regions. With this "sprucing up" of exports, we increase their value added and change their mix.

Foreign trade departments have resolved to change Shanghai's image of being "overly shrewd," to refrain from haggling over minute economic gains and to uphold the "two returns." That is, retained foreign exchange is to be returned in full to the provinces and municipalities that supplied the exports, and Shanghai is not to keep a cent. Payment should be made, without any reductions, to enterprises and basic-level foreign-trade units in these provinces and municipalities in accordance with local policies encouraging exports. According to rough estimates, in 1985 alone Shanghai returned \$150 million in retained foreign exchange to other provinces and municipalities.

With the Door Open, Water Comes Running In

Shanghai has thrown its doors wide open. Other provinces and municipalities have enthusiastically stated their willingness to supply even more export goods to Shanghai in a mutual effort to invigorate China's export trade.

The Sichuan branch of the Animal Products Import-Export Company, which has long maintained harmonious, professional cooperation with Shanghai, sent representatives here who signed, on the basis of new conditions in Shanghai's lateral relationships, another agreement to supply goods to the municipality. This year, in addition to finished pork casings, the company also sent Shanghai 3,500 barrels of semi-finished pig intestines for processing, 1,000 barrels of which Shanghai exported on the company's behalf.

Yangzhou also sent a delegation, which was led by the city's leaders and which told Mayor Jiang Zemin [3068 3419 3046] that Yangzhou was willing to provide 100 million yuan of goods for export from the port of Shanghai and would strive to reach 200 million yuan during the Seventh 5-Year Plan. Jiang Zemin expressed his great gratitude to Yangzhou for its support of Shanghai. After these goods are exported, 25 percent of the foreign exchange retained will definitely be returned to Yangzhou, allowing that city truly to benefit from the exports.

Jiangsu textile-industry departments have also sent representatives here. These people told Shanghai's foreign trade departments that Jiangsu has a surplus of textile production capacity. By coincidence, Shanghai's current capacity is saturated; for cotton cloth alone, the municipality has received foreign orders for 14 million bolts but can only accept orders for 9 million due to insufficient capacity. Thus Shanghai and Jiangsu reached an agreement which helps both sides.

Foreign-trade departments and enterprises of Suzhou, Wuxi, Jiaxing, Huzhou, Ningbo and other cities in the Shanghai economic region, and every province and municipality in China, except Tibet, have sent representatives to Shanghai and eagerly expect the port of Shanghai to take full advantage of its excellent position to promote the growth of exports for the entire economic region and the whole nation.

As the economic center of all of China, Shanghai has never broken off its economic ties with provinces and other municipalities; lateral integration will help these ties grow even more.

Good Trends Have Already Appeared

In the first half of this year, the port of Shanghai earned through export a total of \$1.69 billion in foreign exchange, completing 52 percent of the annual plan. This figure represented an increase of 8.6 percent over the same period last year. Of this amount, goods supplied by other regions in China totalled more than 1.3 billion yuan, an increase of 47 percent over the same period last year. Thus supplies are growing vigorously.

Lateral integration directly expands Shanghai's export production capacity.

Lateral integration provides the raw materials needed for Shanghai's export production and allows the municipality to shift away from production for the domestic market, freeing up space, equipment, and labor to develop exports and to enlarge export production capacity. When the Shanghai No 2 Leather Shoe Factory stopped producing for the domestic market, the factory transferred its domestic business and production to other units, installed two production lines exclusively for the production of leather shoe exports and set aside space for the establishment of a joint venture with foreign businessmen, thus closely integrating domestic ties, exports and imports.

Lateral integration has brought new vitality to the port of Shanghai, allowing the municipality, which serves as a link between China and the outer world, to

strengthen its external orientation. This change is of strategic importance in the restructuring of Shanghai's economic administration.

12919

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FINANCE, BANKING

NEW METHODS OF CAPITAL CIRCULATION DISCUSSED

Guangzhou KAIFANG [OPEN POLICY] in Chinese No 10, 8 Oct 86 pp 8-9

[Article by Jin Ying [6855 4481]: "New Approaches to Capital Circulation"]

[Text] As the restructuring of China's economic system becomes more thoroughgoing, multichannel, multilevel, and multifaceted horizontal economic cooperation has developed rapidly. Both the promotion of horizontal economic linkages and the horizontal circulation of materials, technology, and labor services depend on money to act as a bridge and smooth the way. To meet the need of the development of horizontal economic cooperation, the head office of the People's Bank drew up the "Provisional Regulations for Successful Capital Circulation in Support of Horizontal Economic Cooperation" in March 1986. In accordance with the spirit of the State Council and the head office of the People's Bank, financial agencies everywhere have been actively looking for ways to reform the existing banking system boldly and adopted a variety of credit instruments and diverse mechanisms to circulate capital, effectively supporting economic development.

1. Open up Inter-Bank Borrowing Between Financial Institutions. The existing fragmented management system in banking has led to a vertical pattern of distribution and prevented the horizontal circulation of capital between banks and regions. Since the beginning of this year, banks everywhere have begun dismantling the "high walls" that have stood in the way of capital circulation and made use of "the time difference," "geographical difference," and the "sectoral difference" to engage in interregional and intersector capital circulation. Thus, excess capital is channeled to meet shortages and limited capital is used more effectively. Early this year, the government decided to designate five cities including Guangzhou, Chongqing, Wuhan, and Shenyang as test sites for financial reform. In these five cities, vertical capital distribution was discontinued. Instead the nation's first interprovincial, interregional capital circulation network was established involving banks from 11 cities. Banks in the network supply one another with information on capital surpluses or shortages and borrow from institutions and fix interest rates on their own. So far over 20 urban centers all over the nation have joined this horizontal network. Six cities in Jiangsu, namely, Nantong, Suzhou, Wuxi, Changzhou, Zhenjiang, and Nanjing, have also drawn up an agreement under which branches of the People's Bank in the six cities engage in interregional capital circulation. Some provinces and

municipalities have established financial institutions such as small urban capital markets and urban credit cooperatives. When there is a surplus or shortage of capital, banks can borrow on the small market provided it is operating within a scope approved by the People's Bank.

2. Offer Note Discount Services. Banks stopped offering commercial note discount services several years ago. During that time, enterprises often bought on credit, deferring payment on their purchases. The seller had no guarantee of payment while the buyer was not compelled to pay. As a result, some enterprises dropped seriously behind in payment and there was a credit explosion in society. To steer commercial credit onto the orbit of bank credit, the People's Bank and the Industrial and Commercial Bank issued a joint statement announcing the offering of commercial note discount services in 10 cities to clear up unpaid debts. They also issued the "Provisional Regulations for the Acceptance and Discount of Commercial Notes." At this time, specialized banks in many provinces and municipalities throughout the country have launched such services. Regulations also provide that once approved by a bank, commercial notes signed and accepted by joint enterprises can apply for discount interregionally or from other banks. To promote specialized banks' interest in offering this service, the People's Bank in some provinces and municipalities has begun offering them rediscount services.

3. Establish Interregional Banking Syndicates and Support Development of Intercity Economic and Technical Cooperation. In recent years, as interregional enterprise groupings of all forms and shapes proliferated, intercity economic and technical cooperation has developed rapidly. To adapt to this economic situation, financial institutions in some provinces and cities have formed loose, open organizations of financial cooperation on the basis of voluntarism and mutual benefit and actively supported economic and technical cooperative activities. Financial cooperative organizations take part in the early preparatory stage of cooperative projects and guide and promote reasonable capital circulation. They also put together syndicated loans for large-scale economic and technical development projects and have initiated such credit activities as buyer's credit, seller's credit, trust and leasing, compensation trade, and the issue of loans, stocks, and bonds, thereby boosting horizontal interenterprise economic cooperation.

4. Establish a Same-City Note-Exchange Clearinghouse. To shorten the multi level note-clearing process and speed up capital turnover, many cities have established a same-city note-exchange clearinghouse run and managed by the local branch of the People's Bank. All specialized banks in the city send staff members to visit the clearinghouse at a specified time every day to exchange notes directly. With notes cleared centrally, capital turnover has been accelerated. Meanwhile, banks in adjoining cities have also developed note-exchange services. In the past when a bank in a certain city wanted to clear capital with another bank in a different city, it had to send the vouchers by mail and wait while the provincial bank concerned checked them step by step. This procedure prolonged turnover time for capital. Nowadays some banks have special employees deliver notes between banks in different cities every day. Not only is this a simpler procedure, but it also accelerates capital turnover.

5. Raise Capital in a Variety of Ways. To expand the sources of credit capital, financial agencies everywhere have tapped all sorts of funding channels. The various specialized banks have launched such novel savings plans as incentive savings, personal checking savings, commodity housing savings, fixed and current savings, and citywide fixed-account savings. There are other fundraising channels besides savings, such as a vigorous drive to develop the insurance business and introduce new types of insurance; the promotion of credit cooperatives in townships to benefit collective industrial and commercial enterprises and individual industrial and commercial households who want to deposit and withdraw money or open and settle accounts; the development of a capital market to pool idle social capital in support of production, and the development of direct capital circulation by guiding and supervising the issue of bonds and stocks by enterprises.

The reforms mentioned above are preliminary attempts but they have given the gradual implementation of the financial reform plan a good start. As the restructuring of the economic system gains in depth, the reform of the financial system must go on so that it can continue to improve. Through reform we will be able to establish a powerful and flexible financial control and regulation system, and banks will also become more active in raising and regulating capital, in guiding their circulation, in improving the effectiveness with which capital is used, and in regulating social demand.

12581

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FINANCE, BANKING

IMPACT OF EXCHANGE RATE FLUCTUATIONS ASSESSED

Beijing JINGJI RIBAO in Chinese 5 Nov 86 p 1

[Article by Liu Rui [0491 6904]: "Beware the Impact of Exchange Rate Fluctuations on the Economy"]

[Text] Since Western nations floated their currencies, exchange rates have fluctuated frequently, particularly tumultuously after 1980. Before 1978, with China's foreign economic intercourse on a limited scale, currency exchange rate fluctuations posed only minor risks to us. With expanding foreign economic activities after the country was opened to the outside world, the risks of exchange rate fluctuations have also gone up.

The impact of exchange rate fluctuations on China's economy mainly manifests itself in the following ways.

1. Impact on foreign trade. In foreign trade, the buyer and seller decide through negotiations the currency in which prices are calculated, but the buyer will not actually pay for the goods until 3 to 6 months later. Suppose a certain unit in China imported some merchandise from Japan. It was agreed by both sides that prices would be calculated in the Japanese yen and that the sale price of the merchandise was 10 billion yen. When the deal was made, the exchange rate was \$1:240 yen. Since the Chinese side only had dollars in hand, the cost to them of the merchandise was \$41.67 million. Half a year later, when the time came for the Chinese to pay for their purchase, the dollar was worth only 160 yen, due to exchange rate fluctuations. But since the price, calculated in the yen, was still 10 billion yen, the buyer must part with \$62.5 million, for a loss of \$20.83 million. From September 1985 through April 1986 the dollar dropped about 40 percent against the German mark and the Japanese yen. If many import contracts were signed during the period that calculated prices in the mark or yen, our losses would be very heavy.

2. Impact on foreign debts. Since 1982, a number of Chinese units have raised some long-term funds by floating bonds in Japan. The Japanese Government has also provided us with several fairly substantial long-term loans. From 1982 to the first half of 1985, the dollar was worth 220 to 260 yen. All these debts must be repaid in the yen, but since we have been running a trade deficit with Japan and have little income in that currency, a considerable portion of our debts must be repaid by converting dollars into yens. The

repayment date is approaching for some of these loans. At present the exchange rate of the dollar fluctuates between 150 and 160 yen. At this level we will be repaying 40 percent more in dollars than we borrowed. The losses are enormous.

3. Potential impact on the foreign exchange reserves and foreign exchange assets of various units in the nation. Foreign exchange reserves and assets are made up of a variety of currencies. If a large portion of the reserves and assets is in such currencies as the yen or mark which have appreciated in value (that is, what we usually refer to as hard currencies,) the reserves and assets effectively will have appreciated in value. If a significant portion of the reserves and assets is in currencies like the dollar which have fallen in value (what we call soft currencies), then the reserves and assets will have effectively been devaluated. The higher the portion, the larger the amount, the steeper the devaluation, and the more severe the losses.

Are there ways to avoid the losses brought about by exchange rate fluctuations? These are some of the things we can do now. We must tailor our imports to the kind of currency we have in hand. Enterprises should pay for their imported equipment with the currency they have available. When we borrow in a certain currency, we must also consider our future ability to repay in that currency. Moreover, we must examine the principles of exchange rate fluctuations and predict the trend of currency movements to guide our work. When we import, we must as often as possible pay in a currency that is likely to be devaluated, and vice versa when we export. When we borrow, we must also try to look for loans in a currency that may be devaluated. In addition, we must resort to financial devices to protect the value of our assets. Suppose a certain enterprise purchases some Japanese goods, which must be paid for in yen. The enterprise only has dollars in hand but, anticipating a continuous decline in the value of the dollar, it purchases long-term foreign exchange through the Bank of China, thus shielding itself from heavy losses.

But the key lies in improving the quality of comrades in foreign economic work. They must at least have a good grasp of exchange rates.

12581

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FINANCE, BANKING

RENMIN RIBAO ON ACCUMULATING, BALANCING FUNDS

HK111131 Beijing RENMIN RIBAO in Chinese 9 Feb 87 p 5

[Article by Tian Chunsheng (3944 2797 3932): "Question on Accumulation and Balancing of Liquid Assets"]

[Text] Unbalanced Distribution of Accumulation Causes Unfavorable Influence

Accumulation, as the additional material wealth of society with a year's consumption being deducted from the same year's production, always includes two parts, namely, the accumulation of fixed and liquid assets. The two parts maintain an objective and relatively stable ratio. However, our country often failed to meet the requirement of this rule which our economic work must follow. In the second half of 1983, dual management of circulating funds by both the state financial department and the banks was changed into sole management by the banks. After that, an abnormal phenomenon appeared in the accumulation arrangement, with various localities, departments, and units vying with each other to make investment in fixed assets and not increasing circulating funds accordingly. In a period, almost all investments, including those arranged by the state, those made by localities, departments, and enterprises with their own funds, and those coming from the banks' investment loans, were directed toward the accumulation of fixed assets, and little money was used in accumulating of liquid assets. Working funds were supplied mainly from their credit funds. Such unbalanced distribution of accumulation, and the lopsided investment structure, caused unfavorable influence on the national economy:

First, the scale of investment in fixed assets went out of control. In a certain period, there is a certain amount of funds in society. If money which should be used as circulating funds is used for the purpose of capital investment, then the scale of investment will certainly go out of control and swell excessively.

Second, banks were forced to provide excessive money supply. This is an inevitable result of imposing the task of supplying working funds completely on the banks. In 1981 and 1985, banks made a total of more than 70 billion yuan of working-funds loans a year, and the figure for 1986 will be even

greater. For a few years running, the amount of working-fund loans exceeded the capacity of the banks' credit funds, and the banks could only increase their money supply (including cash and deposits). This was a main factor affecting the balance between total social demand and total social supply, and affected prices and markets.

Third, production and commodity circulation were affected, and investment could not achieve satisfactory results. After some projects were completed, due to the lack of working funds they could not be made operational and achieve economic results. The lack of working funds also affected normal production and commodity circulation. This was one of the main reasons for the serious slowdown in production in the first quarter of 1986.

In order to solve this problem, we still have to do a great deal of work, and it is also important to first overcome incorrect ideas about the character of working funds.

Liquid Funds Are Long-term Rather Than Short-term Funds

In our country, liquid funds have long been regarded as a kind of short-term funds, and only fixed funds are regarded as long-term funds. This is the theoretical foundation for assigning banks to manage the liquid funds (in fact, banks act as the sole source of liquid funds).

In general, the single turnover of circulating funds needs only a small number of days while the turnover time for fixed funds is from a number of years to a number of decades. If we try to show the different characters of the funds in circulation, and to accelerate the turnover of the funds, we can classify funds in light of their turnover time. However, the turnover speed of funds, and the usage time of these funds in the distribution of funds, are not the same economic concepts. We cannot simply say that because the turnover time of circulating funds is short, the usage time of such funds is also short, and that banks can meet all the needs for such funds by making use of their credit funds according to the basic term of repaying debts contracted with the banks.

Funds represent the value paid in advance in the course of reproduction. As social production and circulation continue unceasingly, funds, including fixed and circulating funds, will certainly be bound (or used) on a long-term basis, and cannot be freed from the process of production and circulation. The circulating funds that are paid for objects of work take the form of monetary funds and are changed into raw materials and fuel, and then they enter the reserve stage. After the raw materials and fuel are used in production, the reserve circulating funds enter the production stage. With completion of the production process, the circulating funds are shifted from the production to the product stage. Finally, through sales of the products, the circulating funds again return to the form of monetary funds, ready for the next round of circulation. This is the continuous movement of funds through the three stages, and the funds exist throughout the whole course of these three stages. The materials which match the funds are also bound in the process of production

and circulation. Although such materials are continuously renewed, there must be a certain quantity of materials which remains in the process of production and circulation. That is, the funds paid for such materials will be used for a long time.

Of course, during circulation the circulating funds may also sometimes remain in the form of currency for a short period. Such transient monetary funds will exist only for a short time before they are paid, and once they are paid, they are again used in production and circulation.

Therefore, if we view from the angle of the use of funds, circulating and fixed funds alike are both long-term funds. Only by changing the confused idea about circulating funds can we establish a new concept and change the unbalanced distribution of accumulation and the unreasonable investment structure.

Long-term Funds Must Have Long-term Sources

Since circulating funds are long-term rather than short-term funds, they should have long-term sources, and should not be achieved from short-term sources. This is because the use of long-term funds in both the monetary and material forms is fixed (of course, it sometimes may be changed), although the funds may circulate and attain purchasing power many times, and the materials are also renewed and circulated continuously. More importantly, the amount of such funds used in production and circulation is also fixed, and this amount of money cannot be used for other purposes. For example, a cotton mill usually keeps a stock of 1,000 dan of cotton. The money corresponding to the value of the cotton is bound in this factory and cannot be freely used for other purposes. Although cotton is used in production and new cotton is continuously bought, and the money and materials are circulating continuously, society can no longer use the money paid for the 1,000 dan of cotton for other purposes.

In these circumstances, if we merely use short-term funds rather than long-term funds to meet circulating fund needs, this will cause excessive money supply by banks, because the short-term funds can be used many times and have purchasing power for different purposes. This will then have an adverse impact on the commodity market and will disrupt the balance between the supply and demand of materials and currency circulation.

At present, some people hold that those who make investments in fixed assets should also be responsible for raising the needed circulating funds to change the situation by which the distribution of these two kinds of funds is seriously disproportional. The advantages of this method are that responsibility can be clearly fixed on the due party, and it can also be put into practice easily. This will help change the current situation in which too large a part of enterprise working funds comes from bank loans. In the long run, different investment entities can offer different ratios of investment in fixed assets to investments in circulating assets (for example, over 80 percent of investments in fixed assets are made by the state, localities, departments, and

enterprises using their own funds, while bank loans for fixed capital investment account for less than 20 percent of the total investment). If we implement the principle of arranging corresponding circulating funds while making capital investment, then there will certainly be insufficient sources for circulating funds in investments made by the state, localities, departments, and enterprises using their own money, but there will be a surplus in the use of the banks' credit funds. And that would be another form of imbalance.

The key to maintaining a basic balance between investment in fixed assets and investment to circulating assets, lies in balancing the sources and use of long-term funds and short-term funds in the whole country. The main sources of long-term funds in our country include: Individual investment through the purchase of bonds; after-tax profits retained by enterprises; enterprises' depreciation funds; funds owned by localities and departments; funds collected by state financial department for accumulation purposes; funds owned by banks; and the stable balance of various deposits in the banks. Apart from the stable balance of banks deposits, all the above-mentioned funds can definitely be used as long-term funds. The use of the stable balance of bank deposits as a long-term source is determined by the fact that the deposit balance has kept increasing steadily for many years. This does not mean that the stable balance of deposits can be used unconditionally for the purpose of long-term investment. The use of such money is conditioned by the increase in deposits against the amount of loans, and the retrieval of loans. So, when using the deposit balance as one of the sources of long-term funds, we must not only see the balance of the current year, but also review balances in past years, and estimate the future balance so that we can maintain a general balance in the use of credit funds for a long period. Only thus can we properly handle the distribution of accumulation to fixed and circulating assets.

Banks should shoulder more responsibility for offering loans to meet circulating fund needs. This is in keeping with the growing fund-raising capacity of our banks. However, there must be a necessary condition and that is that loans must be repaid on time. At present, it is stipulated that before-tax profits and depreciation funds can be used to repay capital investment loans. Thus such long-term loans were guaranteed. However, the repayment of circulating fund loans on a short-term basis is not in fact guaranteed, although it is also stipulated that part of after-tax profits can be used to repay such loans. In many cases, such short-term loans are not repaid to the banks. This state of affairs should be changed, and more guarantees should be given on repayment of circulating fund loans than on those for capital investment.

In short, to achieve balance in the sources and use of circulating funds, we must also guarantee balance in the sources and use of long-term funds. On the basis of achieving such a balance, we should first arrange circulating asset investments and then fixed assets investments, so as to rationalize investment fund distribution (it must be pointed out here that the current amount of circulating funds in use is too large and must be reduced to a reasonable level; this is the most important way to overcome the shortage of circulating funds). Only thus can we change the disproportionate condition in the accumulation of fixed and circulating assets so as to ensure sustained, coordinated, and steady development of the national economy.

FINANCE, BANKING

STRENGTHENING SECURITIES EXCHANGE MARKETS EXAMINED

HK100601 Beijing JINGJI GUANLI in Chinese No 12, 5 Dec 86 pp 30-32

[Article by Hao Yanni (6787 3601 1200): "A Discussion on Strengthening the Management of Securities Exchanges"--edited by Huang Weilin (7806 0251 2651)]

[Text] After the state stipulated that Shenyang was to be an experimental city in the financial system reforms in April this year, the city party committee and city government, in accordance with the demands of the state to open up financial markets and develop complete multilevel financial systems, took the lead on 5 August in opening a securities sales and secondary transfer money market. Thereby, our city's financial system reforms entered a new stage in its in-depth development. The opening and proper management of a securities market is an important task in the reform of the economic structure. This will provide new tasks for industrial and commercial administrative work and it is worth our further discussion.

I. The Basic Situation of the Securities Exchange

The Shenyang city securities exchange is an important arena which has been approved by the city government. The Shenyang city branch of the People's Bank of China has arranged for the Shenyang City Trust and Investment Corporation to trade bonds, stocks, and other negotiable securities. Through the securities exchange, those departments in the society which, because of special difficulties, urgently need funds, and those departments which, because they are preparing long-term investments, changing their investment direction, urgently need to transfer bonds, are centrally organized in the exchange set down by the state, where they can carry on their trading. In this way the state can have effective control over the issue of bonds and the scale and quantity put into circulation. Thereby, it can restrict buying or selling simply for profits, speculation and profiteering and other illegal activities. Because the securities exchange is quite a startling innovation, it is strongly specialized and not easy to master. At present our city's secondary money market for securities transfer is only at an experimental stage. The sale and transfer of securities mainly involves four methods:

1) Sale by the corporation. Every day at the exchange, buying and selling prices are posted and securities are bought through the discount method and then transferred and sold to the new purchaser. The bondholders and the

corporation conduct business on a cash and spot-goods basis. When the corporation buys and sells debentures, it retains a 2 percent mark-up.

2) Collateralized discounting. When someone urgently needs funds they can adopt the collateralized [phrase indistinct] discounting term cannot exceed 2 months and the discount rate is based on 1 percent of the nominal value of the securities. If the securities are not redeemed within the set period, the corporation has the right to resell them.

3) Consignment sale. The securities holder must take the securities and certificates to the corporation and request the corporation to sell them on their behalf in the exchange. The corporation will then sell them at the price stated by the consignor and the exchange will only take a 1 percent commission from the selling party.

4) Securities authentication certificates. Both the seller and the purchaser go to a place supplied by the exchange and have a direct meeting and discuss the price freely. After the agreement is concluded, they must go to the exchange for an authentication certificate and, as a means of distinguishing the real from the fake, a stamp is applied to the certificate. Only a 0.4 percent authentication fee is levied on the purchasing party.

The transfer sale price of the securities will be set in accordance with the treasury bond discount rate determined by the People's Bank of China, the price situation in our city's securities exchange, and the length of repayment period, while the price differentials will be in accordance with the appraised price. For example, for 2-year debentures with a one-time raffle, when at least 3 months but less than 6 months of the debenture period has elapsed, the corporation will buy it at 80 percent and sell it at 82 percent. When more than 6 months but less than 1 year of the debenture period has expired, the corporation will purchase it for 85 percent and sell it for 87 percent. By 24 August, the corporation had purchased 2,036 debentures, sold 1,898 debentures, and sales totaled 180,000 yuan. There were also 132 collateralized discounts and 163 authentications.

At present, the city government has authorized the industrial and commercial department, banking department, and public security department to take on responsibility for arranging the secondary money market for securities trade business. The industrial and commercial department and banking department are to take the lead in managing this. This market has attracted wide attention both domestically and abroad and has been widely welcomed.

II. Various Functions of a Securities Exchange

If we look at the trading situation in our city's securities exchange, we can see that its function is different from that of a trade market, and it is also different from the functions of a labor market and a technology market. Its special function is that of an effective measure in developing the commodity economy.

First, the opening of a secondary money market for securities trading is beneficial in resolving the problems of some of the masses who urgently need funds or cannot make payments, in protecting the debentures subscribed to by the masses and in supporting enthusiasm for the four modernizations.

Second, it promotes the stable development of a primary money market. The secondary money market is a motivating force in the development of a primary money market and is also a catalyst for a primary money market. The utilization of a primary money market to collect social capital and change consumption capital into production capital, is a major avenue for resolving the problem of insufficient capital. However, if there is no secondary money market as a back-up and supplement, the primary money market may shrink and the capital source may dry up. At the right time, our city will open the two types of financial markets, so that there are multilevel and diverse channels for capital. This will initially form a complete money market system, which will promote the stable development of a primary money market and guarantee the implementation of the enterprise stock system.

Third, the opening of a secondary money market for securities transfers will prevent share-issuing funds from raising dividends, increasing liabilities and using up the reserves in banks. In its specific activities, our city's secondary money market has the same functions and development direction as the state financial system, and has some other functions which the state financial system cannot carry out. Since it functions to centralize and absorb decentralized funds in the society, it can spur banks to improve their operations and thereby improve their use of capital.

Fourth, it encourages enterprises to improve production operations and guarantees the enthusiasm of investors. Through the secondary money market for securities transfer investors can, in accordance with the prices determined by the operational situation in enterprise and market supply and demand patterns, choose an investment direction, invest their funds in enterprises with good economic results and thereby obtain quite good earnings. Thus, opening a secondary money market for securities transfer is in itself a motivating force in promoting competition between enterprises and it is also an important measure in ensuring that social resources are distributed in the best way.

Fifth, it is beneficial to strengthening the management of securities trading. In the past, securities trading did in fact exist. It was however carried out covertly. After the secondary money market for securities trading opened, this concealed "underground" trade was drawn into the open circulation market. This was convenient to the supervision and management of securities trading, eliminated illegal trading and achieved macroeconomic control.

III. Problems Existing in the Securities Exchange at Present

The Shenyang city secondary money market for securities trading is still in an embryonic state. It does however have a definite role in enlivening our city's capital, enlivening the economy, enlivening enterprises, promoting horizontal accommodation and making things more convenient for the masses. However, because it is still at an initial, experimental stage, certain problems and imperfect aspects remain.

First, new speculators have emerged. With the opening of the securities market it is possible through trading securities to obtain some profits. Thus, it is almost inevitable that in some people a speculative mentality will emerge. From an investigation it is understood that, on the average, each day more than 10 people use places provided by state financial organs to engage in profiteering securities trading. Their aim is not like that of the investors who want to support the four modernizations and just make a small profit. Rather, their aim is to reap a huge illegal income through speculative purchases and sales.

Second, there is speculative buying and selling of securities, the entry of which has not been approved into the secondary money market, and the consequent reaping of profits. In order to enliven our city's securities exchange we are preparing to gradually expand the scale of the trade and approve more securities to enter the circulation market. However, because of objective restrictions in terms of personnel, locations, capital, and authentication conditions, we cannot expand quickly. In this situation, a small number of people have taken advantage of this opportunity, and both within and outside the exchange, in distant villages and neighborhoods and in streets and alleys have used sweet words to buy and sell securities fraudulently. After buying securities at below the proper price from peasants who urgently need money, they increase the price and then sell them. Some of these people engaged in profiteering are also speculatively selling treasury bonds.

Third, there is competition in pricing with the state-stipulated exchange. Because at present in the securities exchange purchasers outnumber sellers, the exchange market price is relatively stable, and the authentication fee is insufficiently rational, a small number of speculators purchase securities and then sell them at a higher price. These people also sell, in large quantities, various types of securities which have not been approved for entry into the securities exchange. From this they seek illegal income.

Fourth, rumors to mislead the people have appeared and this has created confusion in the market. Some people have regularly spread this advice. "If you sell to the state, you will sell at a loss. If you sell to individuals you will not have to pay fees." And so on. They deceive customers and damage market order.

IV. Discussing the Strengthening of Supervision and Management in the Securities Exchange

After our city opened the secondary money market for securities trading, the government appointed the industrial and commercial administrative management departments to take responsibility for the management of this market. This meant that instead of just managing market trade like previously, industrial and commercial administrative management work would enter a new stage of managing a large, unified socialist market. We believe that we should supervise and manage the securities exchange in the following respects:

1. Confirming the legal person status of enterprises which engage in securities business, and implementing legal procedures for registration. According to the stipulations of the "PRC Bank Management Regulations" and the "Shenyang City Provincial Stocks and Debentures Regulations" only relevant financial organs can conduct securities sales and transfer business. These organs can only conduct business after receiving approval from the Shenyang city branch of the People's Bank of China, and their legal person position is confirmed by the industrial and commercial administration management department in accordance with the "Industrial and Commercial Enterprise Registration Management Regulations." Individuals are not permitted to engage in securities business.

2. Examining changes in and termination of the legal person of enterprises engaged in securities business. Article 46 of the "Civil Law Provision" notes: "The termination of an enterprise's legal person shall be advised to the registering organ so that annulment of the registration and public announcement of this can be arranged." Those enterprises which have, after obtaining approval, registered as legal persons to handle securities business, shall if they need to annul this, make a request to the original approving unit 2 months before ceasing business. After approval has been received, the enterprise shall settle claims and debts under the supervision of the original approving unit. It shall complete annulment procedures through the registration organs and the industrial and commercial administrative management department will cancel its business license, terminating the legal person qualifications.

3. Being responsible for the management of the scale of the purchase and sale of negotiable securities. At present, in the spot cash and spot-good trade, if securities are to be traded on the market, first they must be approved by the Shenyang branch of the People's Bank of China. According to relevant state policy stipulations, at present, those securities allowed to enter the market are mainly enterprise (corporation) debentures issued in the society by financial organs. Industrial and commercial administrative management departments should take steps to suppress those debentures which have entered the circulation market without approval. At present, Shenyang city only allows the trading of the debentures issued this year by five enterprises including the Liming Machinery Corporation, the Industrial Product Trade Center and the Housing Property Development Corporation. At present it is not permitted to trade treasury bonds, financial debentures or shares and debentures issued internally by enterprises. Likewise, it is not permitted to trade debentures which are seriously stained or damaged, the authenticity of which is thereby difficult to assess.

4. Supervising the free discussion of prices by securities' purchasers and sellers in stipulated places and, after agreement is realized accompanying them to the exchange for authentication. Any trading which is not authenticated will be considered illegal and will be suppressed.

5. Controlling securities purchase and selling prices and the utilization of economic measures to strengthen management. People who are purchasing and selling securities can take their securities to a stipulated place to trade. The exchange will have floating prices in accordance with the market situation. Each day, purchase and sale prices will be publicly posted. Economic punishment will be meted out to those who disrupt market trade by speculative purchases and sales. This will firmly control large fluctuations in prices.

6. Strictly controlling and managing those enterprises printing securities to prevent fake securities from entering the trading market. All units issuing debentures shall be required to go to specified printing enterprises to have debentures printed. Contracting debenture printing tasks to non-approved units of individuals shall not be permitted.

7. Formulating and perfecting management regulations and preparing, on the basis of investigation and research, to formulate regulations for the management of securities trading.

8. Managing well policy consultations and propagation of laws and regulations regarding securities exchange.

9. Investigating and suppressing all types of speculative and illegal activities as well as private trade. Individuals are not permitted to purchase or sell any kind of negotiable security, including treasury bonds, debentures and stocks. It is not permitted to trade securities, the entry of which into the secondary money market has not been approved. It is not permitted to falsely produce or fraudulently purchase or sell debentures. Furthermore, it is not permitted to spread rumors to hoodwink the masses or to disturb the order of the market.

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FINANCE, BANKING

RENMIN RIBAO ON DECISION-MAKING IN LOCAL BANKS

HK011251 Beijing RENMIN RIBAO in Chinese 19 Dec 86 p 6

[Article by Yang Peixin (2799 1014 2450): "Expands the Operational and Decision-making Powers of Grassroots Banks"]

[Text] As the Range of Bank Businesses Drastically Expands, the Present Situation of Banks Seems Relatively Backward

Following the 3d Plenary Session of the 11th CPC Central Committee, due to the reform of the urban and rural economic structures and the development of commodity economy, the range of bank businesses has begun to drastically expand.

In 1985, the total social output value increased by 138 percent over 1978 (which is calculated according to the prices of the year) but the bank businesses increased by about 400 percent. In the same year, the settlement business of the Beijing Branch of the Industrial and Commercial Bank of China increased by 529 percent, its cash flow increased by 194 percent, its flow of cash saving increased by 425 percent, and its credit balance increased by 222 percent.

The drastic growth of the work load of banks is also demonstrated in: First, the variety of bank businesses has also become varied. Since 1979, the deposit interest rates have been readjusted on four occasions, the interest rates have been classified into 46 grades, and the interests of a saving is calculated according to four phases. There are more prospective credit receivers. Originally, credits were only extended to the enterprises under the system of ownership by the whole people and the collective-owned industrial enterprises. However, credits are now also granted to the collective commerce, food and service trades, and individual industry and commerce as well as the enterprises and institutions of education and culture, tourism, public health, and so on. Previously, banks only provided floating capital credits. At present, they also handle various fixed asset credits, including technical transformation credits, capital construction credits, scientific and technological development credits, commercial network credits, and so on. Second, banks also act as agents of the state treasury, such as collecting taxes, issuing treasury bills, and gathering rents, water, electricity and gas rates and subscriptions of journals and newspapers. In the aspect of collecting taxes, from 1982 to 1985, the variety of taxes has increased from 18 to 23, the

number of items has increased from 45 to 222, the number of households has increased from 37,000 to 118,000, and the number of cases handled has increased from 420,000 to 1,838,000. Third, in making cash payment at the counters, the banks should also take into consideration the stipulations regarding the cash and wage management, the control over the purchasing power of social groups, and so on. However, these stipulations are also changing from time to time. Therefore, this kind of additional managerial and supervisory functions have also greatly increased the work load of banks.

On the other hand, at present the banks' personnel, networks and spots, equipment, and offices just cannot keep pace with the development of situation. At present, the banks are seriously understaffed. For example, the Beijing Branch of the Industrial and Commercial Bank of China has only 10,000 staff, 2,000 staff short of the personnel quota. As the professional level of the personnel is low, the banks have to train cadres despite the restriction of funds and setups. Beijing understaffed, the grassroots banks very often cannot afford to send their staff away to be trained.

Not long after the liberation, there were altogether over 80 banks and old-style Chinese private banks in the urban areas of Beijing. At present, there are only 73 organs including those in the outer suburban counties to handle the deposit and withdrawal of money. Along the 20-li-long Changan Thoroughfare stretching from Bawangfen outside Jianguomen to Gongzhufen outside Fuxingfen, there is only a branch bank in West Changan Thoroughfare. There is not even a small sub-branch along Erhuan Road. On the ground floors of the over 50 tall buildings built along the road from the Beijing Railway Station to Xibianmen, there is only one savings bank but no local subbranch. With only a total floor space of 85 square meters outside the counter, the Guangdong subbranch handles 19,000 sums of business and 2,000 sums of cash per day. In the peak period, it should receive 400 clients. As it is very crowded and the air is dirty, the noise pollution runs as much as 84 decibels.

The banks are now still using such backward equipment as abacuses and pens. Notwithstanding that the banks in all countries in the world are now generally using computers, the banks of ours cannot even afford the home-made billing machines.

As the banks are understaffed and the number of businesses is drastically growing, it has become a common occurrence to be very difficult to open an account, to make a deposit and to send a remittance.

Why is it so? According to the investigation made in Beijing and other places, the staff of banks generally maintain that the obstacle lies in managing banks as the administrative organs, thus making the banks lose the capability of self-development, self-adaptation and self-transformation and restricting the development of banks.

The decision issued by the State Council in September of 1983 regarding the People's Bank of China specially performing the function of a central bank explicitly points out that the specialized banks are economic entities.

However, the specialized banks are now still managed as the administrative organs. The organizations, staff, funds, wages, and so on are all managed in the light of the administrative organs. Therefore, when the businesses of banks have become developed, their organizations, personnel, branches and funds cannot grow timely, resulting in the situation that the banks seem relatively backward and fail to adapt themselves to the new circumstance of the vigorously developing commodity economy.

Expanding the Decision-making Power of the Grassroots Banks

In order to liberate the inner impetus and vitality of the financial trades, it is imperative to expand the decision-making power of the grassroots banks and study and resolve the following issues:

1) To break with the practice of the banks in the whole country all eating from the same "big rice pot" and the method of the general branches centrally effecting accounting and turning over the income taxes to the state, adopt the system of the county and city branches and the branch offices in major cities independently affecting accounting and carrying on operations, and delegate the powers of operation, finance and personnel to the lower levels (this principle is also applicable to the insurance companies and trust and investment companies).

All the county branches of Industrial and Commercial Bank of China, Agricultural Bank of China, and the Bank of China can effect independent accounting. At present, all the general branches, and central sub-branches are all managerial organs and the county sub-branches are the operational units to conduct management at three levels and operation at one level. During the discussions, most comrades tend to favor the practice of the Bank of China. The general branch and provincial branch of the Bank of China all have business departments to enable every level to carry on business. This is conducive to amassing all the capable cadres to the forefront and enabling them to directly gain experiences from the business practices.

Being the bank responsible for the issuance of currency, the People's Bank of China should also be of the nature of an enterprise. Therefore, notwithstanding that it also undertakes the task of being the state financial administrative organ, it can be managed as an enterprise in spite of being an institution.

2) To expand the operational decision-making powers of the county and city sub-branch and the offices in major cities, allow clients to link up credits with their deposits, to contract more credits if they have more deposits, to link their expenditure with their venue and to spend more if they have more income and permit the grassroots organs to horizontally accommodate funds. In extending the floating capital credits, banks should allow people to contract more credits if they have more deposits and make readjustments between items. As for the fixed asset credits, it is still necessary to stipulate the credit limits of each level and not to exceed them.

The county and city sub-branches should deliver income taxes to the localities but be exempted from the regulatory tax. This is because the floating funds and credit funds of the state are in short supply and the banks should retain more funds. The funds for the construction and computerization of local banks and the funds for the education of cadres should be counted as costs. After turning over their income taxes to the state, the banks should first build up a bank credit fund and bad debts reserve and then keep the development fund, welfare fund, and reward fund.

4) Banks in the large and medium-sized cities should strive to realize computerization in 2 to 3 years. Efforts should be made to increase savings, strengthen services, and improve the efficiency of funds. To overcome the difficulties in opening accounts, making deposits and sending remittances, computerization must be realized. Therefore, the construction and computerization funds for the local banks should be counted as costs, so as to ensure the realization of computerization at a quicker pace.

5) The education funds for the bank cadres should be counted as costs, so as to grasp well the rotative training of cadres to improve the quality of the bank personnel. On the one hand, efforts should be made to enlarge the organization of banks and leave about 10 percent of staff to be trained in rotation. On the other hand, efforts should also be made to raise the education funds for the bank [words indistinct] the in-service training of cadres and entrust the colleges of higher education to cultivate financial cadres.

6) In arranging their organization, staff and management of personnel, the specialized banks should adopt the method of enterprises to fix quotas for fixed personnel. For examples, one accountant for a certain amount of settling accounts, one cashier for a certain amount of cash flow, one credit clerk for a certain amount of credit business, and one more local bank for a certain volume of business to make a certain amount of money. The provincial branches of the specialized banks can decide the sizes of their own organization, staffing and personnel. The grassroots organs should be given the power of recruiting and employing personnel, and the People's Bank of China and the general branches of the specialized banks should strengthen their works of supervision, inspection and examination.

7) The bank expenses should be controlled in the light of a bank cost regulation. At present, the bank expenses are rigidly controlled according to a method of capitation for the administrative units. In the future, the general branches of the specialized banks should enact the bank cost regulations to treat banks as enterprises. These regulations can be implemented after the approval and examination of the State Council.

8) The banks should adopt a bank staff wage system. It is suggested that the general branches of the specialized banks should respectively work out their own bank staff wage systems which can be implemented after examination and approval.

9) The local party and government organs should be concerned with and strengthen the leadership of the banks. Following the grassroots banks effect the independent accounting, link credits with deposits, relate expenditure with revenue and deliver taxes to the local governments, the localities will be concerned with the growth of deposits and the efficiency of credits as well as the profits of the banks. Nevertheless, the localities should respect the decision-making power of banks in extending credits and observe the credit systems and policies.

10) The banks should earnestly effect the economic accounting, take cost into account in providing all the services and collect reasonable charges. Banks should also charge for handling treasury bills and collecting additional educational funds. Banks should not pay for the deduction of interests of the loans on favorable terms. Whoever arranges the loan on favorable terms should pay for the deduction of interests.

Those functions of administrative management and supervision entrusted to the banks in the past should be handed over to the administrative organs in a step-by-step way and we should gradually relieve the additional managerial and supervisory functions of the specialized banks, so as to make the banks concentrate on absorbing savings, strengthening services and improving the efficiency of loans.

11) The specialized banks should carry out the business overlappings in a planned and gradual way and stimulate competitions to promote the development of bank businesses.

The Opportunity for Financial Structural Reform Is Ripe

At present, the financial structural reform still needs to resolve several issues: First, to restructure the investment system and build the people's Construction Bank of China into such an investment bank as World Bank to increase the efficiency of investment. Second, to support the social fund raising, develop the credit cooperation between the urban and rural areas, give aid to non-governmental credits and set up the capital market. Moreover, to expand the operational decision-making power of the grassroots banks is an important link in the financial structural reform.

Some comrades worry that given the operational decision-making power and deposits, the grassroots banks can extend credits and link up deposits with credits and revenue with expenditure, which might result in the credit inflation and cause the runaway situation of credit and currency issuance by the end of 1984 to reappear. In fact, in 1984 the grassroots banks did not link up revenue with expenditure. At that time, as the banks in the whole country were still eating from the same big pot and turning over all the profits to the general branches which would then appropriate funds to them, the banks could not have more funds even though they could earn more income. The runaway credit situation at that time was mainly due to that people were hot-headed and blindly sought after speed and that all the departments and localities vied with each other in demanding the specialized banks to extend

credits, thus resulting in the financial deficits, investment inflations and the consumption fund inflations. At that time, as the financial structure was not reformed, the method of deciding the amount of credit in consideration of the amount of deposit was not adopted, and the supply of investment was unrestricted, the credit and the issuance of currency were out of control. Therefore, it does not tally with the fact to blame the runaway situation of credit and issuance of currency on the financial structural reform.

On the contrary, financial structural reform is conducive to the strengthening of the macroeconomic control, and the practice of the grassroots bank linking up deposits with credits and to decide the amount of credit in consideration of the amount of deposit is also conducive to the macroeconomic control. Because the bank savings are only the purchasing power which units or individuals would not use at the moment, the banks lending these purchasing powers to enterprises is only a transfer of the purchasing power and will not increase any extra purchasing powers. Besides, as the central bank also levies a deposit retained fee of 10 percent, thus weakening the purchasing power at each transaction. Therefore, linking up deposits with credits can neither expand the purchasing power nor the general demand. Nevertheless, only under the circumstances that the banks in the whole country all ate from the "same big pot," the grassroots banks borrowed money from the general branches and the general branches borrowed money from the central bank to stir up such an unhealthy tendency of "rushing for money" in 1984 could the issuance of currency of the central bank be expanded. Following the financial structural reform, the local banks will be required to grant credits in the light of the amount of deposits. The grassroots will consciously focus their attention on the localities to absorb savings, increase deposits, do well the work of remittance and withdraw the large number of currency in the society from circulation by all sorts of means and earnestly do the credit work well to increase the efficiency of credits. This kind of reform is to impose the tasks of increasing savings, withdrawing currency from circulation and improving the efficiency of capital in macroeconomy on the grassroots banks and is the only way out to run well the grassroots banks. This is to link up the demands of macroeconomy with the operation of banks and the benefits of the staff and workers and institutionally provide the effective guarantees for the macroeconomic control. Strengthening the macroeconomic control of the central bank does not require reducing the functions of the specialized banks of tying up the hands and feet of the specialized banks. In the light of the actual conditions in our country, as long as the central bank exercises a good control over the loan lending or loan transfer among the specialized banks, credit and currency inflations can be prevented. As our country does not yet possess the necessary conditions to apply the three major means of the West, it is necessary to streamline administration and institute decentralization. Grasping the vital point of providing funds to the specialized banks (40 percent of the credits extended by the specialized banks are from the bank), the central bank can distribute the funds which are equivalent to the increased amount of the currency issue to the general branches of all the specialized banks in the light of the needs of the normal growth of industry, agriculture and foreign trade and entrust them to make flexible readjustments. We should strive to make the macroeconomic control simple and effective while expanding the operational decision-making power of the grassroots banks to invigorate banks and create preconditions for the invigoration of enterprises.

Since the financial structural reform allows the banks to count such expenses as the increase of subbranches, the purchase of computers, the education of cadres, and so on, as costs, would the revenue be reduced? The essence of the issue is that to raise more funds and effectively improve the efficiency of capital in the future, we have to rely on banks and that the success or failure of the economic structural reform and the four modernizations drive lies in the healthy development of banks. Moreover, when the banks are developed, they can provide billions of more capital to the state. No matter how we calculate it, the advantages of the financial structural reform outweigh its disadvantages and must be carried out.

To expand the operational decision-making power of the grassroots banks, it is necessary to weaken the functions of the specialized banks including the managerial organs of their general branches and branches? It should be pointed out that the transnational banks of the old China and the current capitalist countries all adopt the system that branch and subbranch banks operate on their own and are responsible for their own profits and losses while the general branches still maintain their rights of leadership, supervision and capital readjustment and appropriation rather than weakening the functions of the general branches. During economic structural reform, our country has set up such specialized financial organizations as Bank of China, the Agricultural Bank of China, the Industrial and Commercial Bank of China, the People's Construction Bank, the Insurance Company, and so on. In developing the foreign trade, making the rural economy prosperous, promoting the light and textile industries, improving the efficiency of investment and so on, these organizations have played important roles. In setting up the organizations pioneering their causes, enacting the credit principle and appropriating funds, the general branches of these banks have done a lot of works. In the future, in expanding the operational decision-making power of the grassroots banks, it is still necessary to further bring into play the roles of leadership, inspection and supervision of these general branches and branches and do well the work of fund appropriation. We must strengthen the central bank's capacity of macroeconomic regulation as well as the leadership of the general branches and branches of the specialized banks over the grassroots organs.

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FINANCE, BANKING

GANSU GOVERNOR DISCUSSES SAVINGS WORK OF BANK

HK091055 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 8 Jan 87

[Text] It is necessary to unswervingly digest reform of the financial structure and to make new contributions toward accumulating more capital to build Gansu and toward promoting urban reform. This was the hope placed on the savings work of the provincial Bank of Industry and Commerce by Governor Jia Zhejie today.

Last year, the system of the provincial Bank of Industry and Commerce speeded up reform of the financial structure and accumulated capital in many forms. The amount of urban savings deposits throughout the province exceeded the quota by 61.74 percent, a record since the founding of our country. Last year, the Bank of Industry and Commerce set up 67 new savings units within the province and rebuilt or expanded 33 savings units. Savings departments at all levels improved their service and simplified their procedures so that the amount of urban savings deposits last year increased by 630 million yuan.

With the increase in savings deposits, the source of capital was provided to economic development.

Since 1980, through issuing loans for technological transformation, the system of the provincial Bank of Industry and Commerce has supported some 1,200 projects. With the completion of some 900 projects put into operation, the output value has increased by 1 billion yuan.

Today, the provincial Bank of Industry and Commerce held a rally to commend and reward 70 advanced savings units, 80 advanced agencies, and 100 advanced savings workers.

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FINANCE, BANKING

RENMIN RIBAO ON INVIGORATING PRC RURAL FINANCE

HK290811 Beijing RENMIN RIBAO in Chinese 26 Jan 87 p 2

[Commentator's article: "Develop the Money Market, Invigorate Rural Finance"]

[Text] With the deepening of our rural reform and the overall development of our commodity economy, the problem of finding ways to resolve the shortage of funds has been further highlighted. At present, both the realignment and circulation of technology, labor service, and other key elements of production and the formation and perfection of rural markets depend on the impetus given by the essential factor of funds and also cannot be separated from the regulatory and catalytic roles played by funds.

This year, the state will give stronger backing to agriculture and will also increase input [tou ru 2121 0354] for agriculture. However, the state will not be able to offer more funds for expanding the scale of rural credits. Under these circumstances, resolving the shortage of funds will mainly depend on energetic efforts made by rural financial departments to organize funds and tap the potentials of funds.

Over the past few years, rural financial departments have scored positive achievements in promoting the lateral accommodation of funds. This year they must make great efforts to develop rural money markets and particularly short-term money markets, use different levels and types of money markets to form a crisscross network for accommodation of funds, further expand the scope [words indistinct] the lateral accommodation of funds, and invigorate funds. Areas where conditions exist can properly establish some negotiable instruments markets and can also adopt proper ways to promote a gradual formation of stock markets. Regarding free lending and borrowing markets and nongovernmental credit organizations, it is imperative to strengthen the clearing of circulation channels and management and enable nongovernment free lending and borrowing markets to develop in healthy direction. Regarding the expansion of sources of funds, in addition to adopting measures to increase savings, we can further explore various ways to organize funds. Changing the highly centralized planned management system and giving full play to the regulatory role played by market mechanism are important contents of the reform of the financial

system. Since China practices a planned commodity economy, the market mechanism must operate under the guidance of plans, and planned mechanism and market mechanism will be simultaneously brought into play for a certain period of time. Therefore, in promoting the lateral accommodation of funds, we must persist in integrating market mechanism with planned mechanism and in making the plans of agricultural banks and credit cooperatives dovetail.

The key to invigorating our rural finance lies in reforming and building financial institutions. The orientation of the reform of agricultural banks is to run such banks as enterprises. This is the central authorities' existing policy. Achieving this goal requires a process. This year, the head office of the Agricultural Bank of China will transfer comprehensive and necessary power to its county-level (city-level) subbranches; will promote the management responsibility system that combines responsibility, power, and interests; and will also strive to turn its county-level (city-level) subbranches into the basic independent accounting units that manage independently, keep separate accounts, are sensitive and responsive to market conditions, and have capacity for self-expansion and self-remolding. This will be an important move to promote the reform of agricultural banks. The implementation of these measures will certainly raise the standards of management and service in agricultural banks and will also quicken the pace of the reform aimed at running all agricultural banks as enterprises. All areas should actively and conscientiously promote this work. The key to the reform of credit cooperatives lies in enabling the cooperatives to keep separate accounts, to manage independently, and to truly become the peasants' cooperative financial organizations. This issue has been repeatedly raised for discussion for many years. This year it is imperative to speed up the process of this reform. Areas where conditions exist should carry out as far as possible the division between agricultural banks and credit cooperatives in this year. This division is required for developing rural commodity production.

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FINANCE, BANKING

CHEN MUHUA GREETES INVESTMENT EXPERTS COMMITTEE

OW201055 Beijing XINHUA Domestic Service in Chinese 1240 GMT 14 Jan 87

[By reporter Chen Yun]

[Text] Beijing, 14 Jan (XINHUA)--The China Investment Consultancy Company Experts Committee, a high-level, multifunctional "think tank" composed of over 150 authoritative experts and scholars of various trades and professions, was formed here today.

Serving as advisers to the committee are Xue Muqiao, Li Yining, and 15 other economists who are well known at home and abroad.

The company, which was founded in March 1986, is China's first consultancy company whose main business is to conduct feasibility studies and economic and technical evaluation of the state's major construction projects, especially those which require bank loans; to provide scientific information necessary for making decisions in making investments or extending credits; and to provide efficient guidance in investment and achieve higher investment returns for society. This mission has now fallen on the shoulders of the experts of the committee.

Chen Muhua, state councillor and governor of the People's Bank of China, sent a letter to congratulate the formation of the committee. Speaking at the founding ceremony, Ma Hong, director general of the State Council's Economic, Technological, and Social Development Research Center [ETSDRC]; Zhu Rongji, vice minister of the State Economic Commission; and Zhou Daojiong, president of the People's Construction Bank of China [PCBC], called the founding of the committee a major event in guiding investment by using a scientific approach.

According to Gao Yang, chairman of the company's board of directors, since its inauguration, the company, which was founded with the support of the ETSDRC and PCBC, has completed feasibility studies for over 40 large and medium-scale capital construction or technological renovation projects at the PCBC's request. This year, the company will undertake the evaluation of 80 other large and medium-scale projects, he said.

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INDUSTRY

MINISTER OF METALLURGICAL INDUSTRY ON 1987 PLANS

Beijing JINGJI CANKAO in Chinese 7 Jan 87 p 1

[Article by Correspondent Ding Genxi [0002 2704 0823: "Minister of Metallurgical Industry Qi Yuanjing [2058 0337 7231] Talks About Iron and Steel Production; Need To Raise Quantity and Even Greater Need To Raise Quality; Increase in Output of Readily Salable Products That Satisfy Needs; Use of Technical Specifications and Operating Instructions To Insure Product Quality; Use of Work Standards To Insure Quality Standards; Display of a 'Caution Sign' or a 'Stop Sign' to Enterprises Having Problems With Quality; No Wage Increase During the Year and No Promotions for Plant Managers at Units That Have Received a Warning"]

[Text] During the 6 January opening of the National Metallurgical Work Conference, Minister of Metallurgical Industry Qi Yuanjing said that not only do we have to raise quantity but an even greater need is to raise quality in iron and steel production and to increase output of readily salable products that satisfy needs. If quality is poor and products do not satisfy needs, no matter how great the quantity, standards are still low.

He called upon all staff members and workers in the metallurgical system to work ceaselessly and unremittingly and to strive to create new standards. As far as quality is concerned, first of all, steel output surpassed 60 million tons during the Seventh 5-Year Plan; second, around 1995, a new high of 80 million tons per year will be reached for the realization ahead of time of plan norms for the present century. State plans for 1987 call for the production of 53 million tons of steel and the metallurgical system will strive to reach 54 million tons. In addition, it will further improve the quality of products, make a major effort to develop new kinds of products and increase output of products that are readily salable and satisfy needs.

Qi Yuanjing pointed out that at the present time iron and steel products still do not meet needs for making headway in the technical transformation of all sectors and for replacing and updating products. We remain unable to produce some of the new steel products needed by railroads for high speed and heavy-duty performance, for the intensification of coal mining, for offshore petroleum extraction and for large engineering machinery. Some products are produced but only in small batches that are unable to satisfy customer needs. As for quality, a substantial portion of products are of uneven quality.

Furthermore, China's pace is still slow in the organization of production to meet international standards. Even in the case of products that meet specifications, a considerable number still perform poorly, have a short useful life and are still a rather long way from being able to compete with foreign products.

Qi Yuanjing emphasized that during 1987 all iron and steel enterprises are to strengthen quality consciousness and adhere to making products the "turnkey" in the achievement of excellence, using technology as the foundation for instituting comprehensive quality control, using technical specifications and operating rules to assure product quality, and using work standards to insure quality standards. It is necessary to resolutely exercise veto power over quality, to set up a strict quality responsibility system, to augment further the 5 national-level and the 38 industry-level quality-inspection centers, and to form a national network to bolster the monitoring of quality. Quarterly random samplings of quality are to be made, and the system of publishing results continued. Units having numerous problems with quality are to be given a "caution sign warning" (reorganization without stopping production) or a "red sign warning" (stopping of production for reorganization). Enterprises in units that receive a caution sign or a stop sign warning are to receive no wage increases during the current year and plant managers are to receive no promotions. Furthermore, bonuses are to be reduced.

The Minister of Metallurgical Industry also emphasized that all enterprises are to devote attention to quality standards. Production of steel products meeting international standards is to be increased to 5.5 million tons during 1987 and the pace is to be quickened for the adoption of international standards to insure that by 1990 more than 40 percent of the steel products of key enterprises will be produced in accordance with international standards. In the realm of kinds of products, emphasis is to be placed on new types of steel products for use in 10 different areas including high speed, heavy-duty railroad performance, intensification of coal mining, offshore petroleum extraction, and large engineering machines. In addition, 25 production lines meeting international standards in production are to be completed during 1987. These will go from raw materials and smelting all the way to steel rolling, finishing, and packaging, with new technology taking the place of old technology. During 1987, special efforts are to be made to purify molten iron, to activate limestone, to do external furnace refining, to do continuous casting, and to measure and improve rolling machine accuracy.

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INDUSTRY

SHIPBUILDING INDUSTRY SCORES NEW RECORDS DURING 1986

Beijing RENMIN RIBAO in Chinese 19 Jan 87 p 1

[Article by Xinhuashe Correspondent Li Anding [2621 1344 1353] and Newspaper Correspondent Wang Yantian [3769 1750 3944]: "Country's Shipbuilding Industry Created a Record in 1986; 18.1 Percent Increase Over 1985 in Shipbuilding Tonnage With New Technical Breakthroughs as Well"]

[Text] Despite a worldwide slump during 1986 in the market for ships, China's shipping industry spared no effort. Shipbuilding tonnage rose 18.1 percent over 1985, creating a new record, and new technical breakthroughs were also scored.

Figures released by the Chinese Shipping Industry Co show that during 1986 China's shipbuilding industry system built 347 ships of all kinds totaling 845,000 tons, and it was working on or had completed 17 ships for export totaling 365,000 tons. Further adjustments were made to the makeup of products of China's shipping industry. The ratio of military products to civilian products reached 1:4 and the shipbuilding industry's strengths in multiple areas were further elaborated, nonship and boat products accounting for 28.5 percent of gross output value. During 1986, the country's shipbuilding industry scored substantial breakthroughs in the technical realm, making new strides both in ship tonnage and in difficult problems of technology. The 115,000-ton shuttle tanker built by the Dalian Shipyard meets modern world advanced standards. The first oil drilling platform successfully built in China, with its complex structure and advanced performance, pioneered a new field in marine engineering. Equipment such as new guided-missile escort ships, training ships, and target-mine mother ships were built for the Navy. Sixty-five percent of all equipment used on ships was produced in China, and all of the main engines installed in the 13 ships constructed for export during 1986 were of Chinese origin.

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INDUSTRY

SMOOTH TAKEOVER OF GARMENT INDUSTRY BY TEXTILE DEPARTMENTS

Beijing RENMIN RIBAO in Chinese 19 Jan 87 p 1

[Article: Efforts To Place Garment Industry Under Textile System Progressing Smoothly"]

[Text] The 19 January issue of ZHONGGUO FANGZHI BAO [CHINESE TEXTILE NEWS] reported that since issuance by the State Council Office of "Notice On Placing the Garment Industry Under the Management of Textile Departments," efforts to place the garment industry within the textile system have been proceeding smoothly in all provinces, municipalities and regions. The CHINESE TEXTILE NEWS correspondent obtained the following from the recently concluded National Preparatory Conference of Garment Company Managers From Some Coastal Cities. The task of placing the garment industry under textile departments began during 1985 in most provinces and cities in the country.

Shenyang took the lead in placing the garment industry under textile departments, its municipal government acting decisively and quickly. After receiving the notice from the State Council, it announced on 8 December 1986 that as of 10 December 1986 the Shenyang Municipal Garment Industry Company and its affiliates, which were under jurisdiction of the Municipal Second Bureau of Light Industry, would come under leadership of the Shenyang Municipal Textile Industry Bureau. The Municipal Textile Bureau formulated three measures regarding the takeover of the municipal garment company as follows: First, after coming under bureau management, the garment company's structure would continue without change; second, the Municipal Textile Bureau would, as a matter of principle, only manage the garment company, it would not directly control the enterprise; third, all preferential provincial and municipal policies enjoyed by the textile industry would also apply to the garment industry. Currently, the Shenyang Municipal Textile Bureau is making plans and arrangements for the various lining and facing materials that garment companies will need for their 1987 production.

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SMALL-SCALE ENTERPRISES

BRIEFS

BEIJING TOWNSHIP ENTERPRISES--Beijing Municipality has made more rapid development in its township enterprises. The 1986 annual income of these enterprises is expected to reach 6 billion yuan and the total industrial output value realized by these enterprises is expected to reach more than 4.4 billion yuan, respectively an increase of 16 percent and 53 percent over 1985. [Excerpts] [Beijing BEIJING RIBAO in Chinese 19 Dec 86 p 1 SK] /8309

HUBEI TOWNSHIP ENTERPRISES--The gross output value of all township enterprises throughout Hubei Province this year has amounted to 15 billion yuan, an increase of 30 percent over last year. The output value of the township enterprises of each of 47 counties and cities throughout our province has exceeded 100 million yuan. The township enterprises throughout our province have produced some 150 products of superior quality, which are 45 more than last year. The number of workers of the township enterprises throughout our province now is some 3.7 million and accounts for 24 percent of the rural labor forces. The gross output value of the township enterprises accounts for over 40 percent of the rural social gross output value and the output value of the township enterprises of half of the number of counties and cities has exceeded the gross agricultural output value. Every year, the township enterprises invest some 100 million yuan in the building of small fairs and cultural facilities. [Summary] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 30 Dec 86 HK] /8309

GANSU TOWNSHIP ENTERPRISES--At a press briefing on the township enterprises of the whole province which was held by provincial government this afternoon, (Ma Changming), director of the provincial Township Enterprise Administrative Bureau, said that the gross output value of the township enterprises of Gansu Province this year had reached 2.4 billion yuan, an increase of 42 percent over last year. Up to the present, the 14 prefectures, autonomous prefectures, and cities of our whole province have fulfilled their quotas for the whole year. It has been planned that the gross output value of the township enterprises next year will exceed 3 billion yuan, an increase of some 25 percent over this year and that the number of workers of the township enterprises will amount to 1 million and account for 13.6 percent of the total number of the rural labor forces of our whole province. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 30 Dec 86 HK] /8309

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AGRICULTURE

CHEN JUNSHENG STRESSES AID TO POOR AREAS

OW010027 Beijing XINHUA Domestic Service in Chinese 0757 GMT 27 Dec 86

[Excerpts] Beijing, 27 Dec (XINHUA)--Chen Junsheng, secretary general of the State Council and head of the State Council's Leading Group for Economic Development in Poor Areas, said recently at a forum: The year 1987 is of crucial importance in the Seventh 5-Year Plan for solving the problem of food and clothing for the majority of people in poor areas. We must make noticeable progress in our work in those areas.

1. One of the urgent tasks next year is to strengthen fund management and improve efficiency in economic development. In the past, most of the state's aid-the-poor funds were spent on relief, and results were unsatisfactory. This year, we adopted the policy of economic development, with a view to encouraging households to develop commodity production. We also appropriately concentrated funds on a few projects and introduced new management methods.

2. Achieve new progress in expanding and maintaining lateral ties of all kinds. Today, poor areas have established extensive ties with developed areas, large and medium-sized cities, scientific and technological units, and institutes of higher learning. The situation in which poor areas did not have technology, skilled personnel, and information has improved somewhat. To develop these ties, we must act in accordance with the economic law, and uphold the principle of mutual benefit.

3. Make new progress in aiding poor areas with science and technology. The "Spark Plan" and the assignment of scientific and technological personnel to poor areas have been well received by the masses. Next year, we should adopt more diverse forms and a flexible policy to further expand the scope of this work.

4. Exercise more effective leadership over economic development in poor areas. As the policy and goal of development has been decided, the key in this work lies in leadership. Therefore, we should appoint to poor areas those pioneering cadres who have aspirations to help those areas shake off their poverty.

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AGRICULTURE

SHAANXI ISSUES REGULATIONS TO PROMOTE RURAL S & T

Xi'an SHAANXI RIBAO in Chinese 2 Oct 86 p 2

[Regulations issued by the Shaanxi CPC Committee and the Shaanxi People's Government, 28 September 1986: "Regulations Concerning Policy Problems Encountered in Rural S & T Development"]

[Text] Since the 3rd Plenary Session of the 11th CPC Committee, Shaanxi's rural economy has grown quickly, and the overall situation is becoming better and better. These developments are due primarily to the prestige of the party's policies and the party's adherence to reform. We must, however, clearly recognize that Shaanxi's rural productive forces remain very backward. Neither worker quality nor productive technology has improved much in the past few years, and agricultural production still has a long way to go to make the break from traditional and backward modes of manual labor. Although there has been considerable growth in township and town enterprises [TTEs], their equipment is old, their technology is backward, they lack skilled personnel, their management is crude and lax and their results are low. In general, Shaanxi's countryside has just begun to change from a natural economy to a commodity economy and has not yet truly begun the transition from traditional to modernized agriculture. Therefore, the historic task we confront is to vigorously improve rural productive forces and to promote development of a commodity economy. The key to accomplishing this strategic task lies in conscientious and thorough implementation of the important guiding principles set forth by the central authorities: "S & T must serve the rural economy, and rural economic development must rely on S & T." We must thoroughly implement each of the State Council's policies concerning the promotion of lateral economic integration and the encouragement of rational mobility for S & T personnel, and we must promote S & T development in Shaanxi's countryside. To these ends, the Provincial CPC Committee and the Provincial People's Government have drawn up the following Regulations, based on views discussed at the Shaanxi Conference on Rural S & T Development.

1. Formation of technology corporations is encouraged, and integrated entities combining research and production and linking research units or institutions of higher learning with various levels of rural economic organizations and production units, and integrated technical-economic entities joining state-owned enterprises and TTEs shall be established. The two partners in these entities should set profit shares through consultation and

in conformity with the principles of voluntary participation and mutual benefit. The entities shall receive active support, be permitted unhindered development and be accorded, pursuant to the Ministry of Finance's Temporary Measures Governing Tax Problems Involved in the Promotion of Lateral Economic Integration (Ministry of Finance, Tax Bureau Document No 078 [1986]) and Temporary Regulations Governing Collection of Income Taxes from S & T Research Organizations (Ministry of Finance, Tax Bureau Document No 081 [1986]), preferential treatment in the form of tax reductions or exemptions. These policies may appropriately be relaxed for units providing technology and funds for the joint development of poor, remote mountainous regions and old revolutionary bases, which units may be granted even more tax breaks; for these cases, specific measures shall be drafted by provincial tax departments. Upon agreement of both partners in the integrated entity, special compensation may be accorded personnel selected from institutions of higher learning and research units to undertake technical and managerial duties in said entity.

To strengthen the capacity of existing TTEs for self-transformation and development, to "build ponds and raise fish" and to accumulate wealth, over the next 5 years, each prefecture, city and county may, based on its own financial resources, set aside an appropriate proportion of the increment in TTE taxes over the previous year for use as complementary support funding for TTE technological development and transformation.

2. S & T personnel and specialists employed by state-owned units may use their free time to provide technical services to or, when appropriate, take second jobs in villages and TTEs, so long as such individuals make sure to fulfill their original job responsibilities and do not encroach upon the rights and interests of their original work units. Remuneration for such services and jobs shall be determined by both parties, and in principle income so obtained shall belong to the person earning it. When such persons use their work unit's instruments, equipment and technical data or take time off from work for such services or jobs, the work unit may charge appropriate fees. The achievements and results such persons obtain when providing outside technical services should be recorded in their professional and technical evaluation files and serve as a basis for promotions.

3. Retired specialized technicians and technical workers shall be encouraged to accept employment with TTEs if these personnel are truly interested in such employment. Special compensation may be granted, with the specifics set through discussion between the employer and the individual appointee. During periods of such employment, appointees' original pension benefits shall not change. Liability for work-related injuries suffered by such appointees shall be borne by employers.

4. While giving priority to and assuring the personnel needs of key national development projects and major research projects, colleges, universities, research units and enterprises should support specialized technical personnel willing to accept work in villages, townships, towns and TTEs and may process such transfers as their cadre-management authority permits. Specialized technicians transferred to TTEs shall retain their status as state employees, their seniority will continue to grow, and their residency, salaries, administrative affiliations and personnel files shall be handled by the labor

personnel departments or the responsible professional departments of the counties in which such personnel are employed. Such personnel may be accorded special salaries and benefits, which shall be set through consultation between the employer and the appointee.

5. Colleges, universities, research units, and enterprises should permit specialized technicians and skilled workers currently working in the countryside on loan or on leaves of absence without pay to continue working in villages, townships, towns and TTEs. Those personnel who have not completed all the formalities for temporary or permanent transfers should complete the remaining procedures therefor. Appropriate arrangements should be made for individuals wishing to return to their original work units.

6. Urban workers and unemployed personnel who have graduated from television, correspondence, night-school and other colleges for adults and who have been ascertained to possess technical and professional skills shall be encouraged to accept employment in TTE technical or managerial positions. While employed in such enterprises, these personnel may keep their residency and grain rations in the city and be accorded special salaries and benefits, and personnel who were originally employees of the state shall retain that status.

7. In the future, there should be systematic annual assignment of a certain number of graduates from technical colleges and secondary schools to work at the grassroots level in the countryside. Whoever is directly assigned to work in townships, towns and TTEs shall become a permanent employee and be assigned a salary grade from the day he reports. While employed in such enterprises, these personnel may receive special remuneration and retain their status as state employees, and their residency, salaries, administrative affiliations and personnel files shall be handled by the labor personnel bureaus or the TTE departments of the counties in which such personnel are employed. These personnel shall be permitted to transfer after 5 years of work, and they make retain their accumulated seniority.

8. Problems regarding the political status and living conditions of rural technicians who have been partially uninvolved in their proper lines of work shall be resolved rationally. Relevant departments and personnel departments should draw up and administer standardized tests and evaluations of such technicians. Those technicians who have worked continuously for 10 years or more, who have completed secondary vocational training in their specialties and who meet national standards for technicians may, upon approval and grouping in state planning quotas, be eligible for competitive appointment as contract technicians by personnel departments. Technicians failing the tests and evaluations should be released, and those who pass the tests and evaluations but who have not been hired permanently because of temporary staff freezes may be retained and given appropriate increases in their living-expense allowances.

9. Recognition should be granted to S & T results achieved by technicians engaged in rural technical extension work and by researchers and college and secondary school teachers who provide technical services to villages and TTEs. The amount of work these workers contribute in these areas shall be computed, and their achievements shall be eligible to compete in S & T award contests

and recorded in their technical dossiers to serve as a basis for technical and professional evaluations and for granting promotions. The specialized duties of technical extension personnel should be evaluated in accordance with state standards, and the evaluation, grading and promotion of these workers should be determined largely through a realistic assessment of their contributions and work results.

10. To thoroughly implement the state's policy of encouraging S & T cadres to assist medium and small enterprises and urban and rural collective enterprises, and to vigorously improve TTE technology and management, such enterprises shall be required to maintain their own specialized technical staff. All personnel who are officially recognized by the state as qualified specialized technicians and who accept specialized technical jobs in TTEs may undertake duties corresponding to the jobs handled by specialized technicians employed in state-run enterprises. TTEs may send graduates of technical colleges and vocational secondary schools and self-educated personnel to take classes in colleges, universities and vocational secondary schools. Personnel passing standardized national tests and evaluations shall be considered qualified to perform specialized technical duties in TTEs. A system for the hiring of specialized technicians for TTEs should be gradually set up and perfected and may be modeled on the system used in state-run enterprises.

11. Restrictions governing transfers of rural residency to urban commodity-grain residency for family members of S & T personnel working in townships, towns or TTEs in poor border mountain areas shall appropriately be relaxed. Problems relating to such transfers for family members of engineers, of specialized technicians at the same job level as or higher job levels than engineers, and of other technicians who have 8 years of seniority and who have worked continuously for 3 or more years in townships, towns or TTEs in poor border mountain areas may be resolved locally. If the aforementioned personnel request reassignment from poor border areas within 5 years after being allowed to transfer family members' residency out of the countryside, local residence and grain ration administrative offices shall revoke the urban residence permits granted to the families of these personnel.

12. So long as the training and research tasks assigned by the state are fulfilled, colleges, universities, technical secondary schools and research units shall make full use of existing facilities and resources to run a variety of long- and short-term special-technical and general-training classes so as to meet the needs of the countryside and to actively provide practical technical training for rural and TTE personnel. Fees for such training shall be set at special or preferential rates and may not exceed the standards established by the state. Colleges, universities, secondary vocational schools, research units and relevant provincial-level departments shall take practical steps to assist prefectures and counties in the latter's efforts to strengthen technical training for young and middle-aged rural workers. The province shall strive to ensure that, within a few years, all cadres and staff members hired by rural enterprises have received specialized technical training prior to employment.

13. To assure that our limited funds are used in projects requiring minimal investment and yielding rapid and effective results, government units and

relevant departments at every level shall properly administer and employ rural S & T funds and conscientiously carry out project economic responsibility systems. From now on, S & T funds shall be granted and employed in accordance with business contracts that clearly delineate responsibility and that are signed by the departments investing the funds and the departments proposing or the enterprises or institutions undertaking projects. Such funds are to be invested project by project, the results of each project shall be examined, clear-cut evaluation standards shall be established, and specific departments or individuals shall assume responsibility for specific projects. In principle, compensation shall be rendered for support accorded to developmental projects that show clear profits within 3 to 5 years. This compensation shall be paid by the due date and recycled so as to assist other projects, thus creating a snowball effect. In this way, funds for rural technological extension and development gradually will accumulate.

CPC committees, government units, and relevant departments at all levels must conscientiously strengthen their leadership over and coordination of rural S & T development. Specific measures governing the implementation of these Regulations shall be drawn up in accordance with policy guidelines and the provisions set forth herein. New conditions and problems arising during implementation of these Regulations shall promptly be reported to the Shaanxi CPC Committee and Government.

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CSO: 4007/39

AGRICULTURE

XU LINGREN REPORT AT SCIENTIFIC WORK CONFERENCE

SK101155 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 9 Jan 87

[Text] In her report to the regional scientific and technological work conference, Comrade Xu Lingren pointed out: The key to the region's economic work lies in developing animal husbandry through grass and tree planting. The masses of scientific and technical workers must strive to enhance their understanding, change their ideas, and firmly foster the guiding ideology of serving the development of animal husbandry through grass and tree planting. The masses of scientific and technical workers must strive to enhance their understanding, change their ideas, and firmly foster the guiding ideology of serving the development of animal husbandry through grass and tree planting.

She said: Scientific and technical workers throughout the region should persistently act as a shock force in developing animal husbandry through grass and tree planting. For this purpose, they should further solve their ideological problems.

First, they should overcome the idea of divorcing scientific research from production and social demands, and foster the idea of linking science and technology closely with economic construction. Science and technology should be oriented to the needs of economic construction, which in turn should rely on science and technology. This is the ideology guiding scientific and technological work, and also a fundamental way to solve the problem of separating science and technology from the economy. Therefore, the masses of scientific and technical workers should put more efforts in linking science and technology with the economy.

Second, they should overcome the idea of stressing scientific research to the neglect of application, and foster the ideas on technology development and imports, and application, of scientific research findings. They should popularize advanced and applicable technologies rapidly in rural and pastoral areas so that they can be turned into productive forces at an early date, and so that science and technology can perform a key function in developing the animal husbandry economy.

Third, they should overcome the idea of concentrating on one field of research work only, and foster the ideas on comprehensive research, serial development, and research of coordinated technologies.

Fourth, they should overcome the idea of stressing academic levels to the neglect of economic results and market demands, and foster the new idea of putting economic results in the first place in scientific research. They should pursue profits for the masses of peasants and herdsmen, for township enterprises, for scientific and technical personnel and for scientific research units. They should study market demands, foster the sense of commodities, and make scientific research findings more applicable and competitive.

Comrade Xu Lingren said: In implementing the strategic policy decision on developing animal husbandry through grass and tree planting, the regional party committee pins its hopes on science and technology, and on the masses of scientific and technical workers, urging them to make a new breakthrough in science and technology. Animal husbandry production represents a kind of complicated systems engineering, which require an overall strategic arrangement. However, in order to achieve a breakthrough within a short period of time, we should give prominence to priorities. We should concentrate outstanding forces on a war of annihilation in terms of tactics, and start from grass planting, commercialization of animal by-products, and processing of animal by-products in terms of content. We should pool manpower, material and financial resources to achieve notable results within a short period of time. For this purpose, scientific and technological departments should focus their efforts on the research and application of grass planting, management and utilization technologies in order to facilitate a great development in grass planting. They should also study and popularize scientific livestock breeding and management technologies in order to facilitate a great development in commercializing animal by-product processing technologies in order to facilitate a great development in the processing of animal by-products.

Comrade Xu Lingren pointed out: It is a glorious task entrusted by history for the scientific and technological departments at all levels and the masses of scientific and technical workers throughout our region to orient science and technology to the needs of developing animal husbandry through grass and tree planting. To fulfill this task, scientific and technological departments should proceed from the specific conditions of their own localities, and follow the guidelines of seeking truth from facts and braving the way forward to work out their own plans, which should clarify their goals and pinpoint their priorities, and adopt effective measures for their implementation. Taking the entire region into consideration, the general requirements are to make a success of the functions of the existing scientific and technical personnel, the application of the existing scientific and technological findings, and the management of the existing scientific research funds, and to exert great efforts in grass planting and livestock breeding.

Comrade Xu Lingren said: This year, our region's scientific and technological work should be focused on the following major tasks. First, we should launch activities to learn from Comrade (Liang Yi), and organize and encourage scientific and technical personnel to go down to the grassroots and the forefront of production to serve the work of developing animal husbandry through grass and tree planting. When going down to the grassroots and the forefront of production, scientific and technical personnel should carryout the major task of helping various banners, counties, townships, towns and

sumu to work out plans for development, clarify their strategic priorities, and improve management. Based on local resources, they should help in developing easily applicable technologies which can yield good economic results and which require low cost, and popularize them extensively. They should provide peasants, herdsmen and township enterprises with multi-layered technological and economic information, and channels for technology, fund and personnel transfers, and help in establishing lateral cooperative associations of various forms and natures. They should give meticulous technical guidance to production and consulting services, and help in establishing various types of production technology demonstration centers which can serve as leaders with their technologies worthy of being popularized. They should carry out active work in the training of scientific and general knowledge.

Second, we should hold large-scale technical training in rural and pastoral areas. We should establish and improve the regionwide scientific and technical training systems as soon as possible, strive to establish a network of various levels, forms and teaching content within a fairly short period of time, and organize high-quality teaching contingents and administrative systems. Those to be trained in the near future will be grassroots cadres, township enterprise cadres, rural educated youth, demobilized and retired army-men, and specialized peasant and herdsman households.

Third, we should regard establishing and improving a scientific and technological service network as a major event and attend to it. When carrying out this work, we should take into consideration the lack of scientific and technical personnel in rural and pastoral areas, which is a reality, combine it with our efforts to mobilize scientific and technical personnel to go to the forefront of production, absorb as many peasants and herdsmen to join the network as possible, and provide conveniences and highly efficient and qualified service to the people instead of trying to establish an all-embracing, large-scale and modern network alone. In short, establishment of this network should be submitted to the need for developing animal husbandry through grass and tree planting. The service should cover supplies of forage production technologies, scientific breeding methods, veterinary and epidemic prevention methods, fine animal strains, animal propagation technologies, and animal by-product processing technologies.

Fourth, we should continue to grasp reform of the scientific and technological system, strengthen overall control over science and technology, give full play to the functional role of scientific and technological administrative departments, and give prominence to the fulfillment of the spark plan.

Fifth, we should step up establishing science and technology demonstration households, villages, gacha, townships, towns, sumu, banners and counties, and gradually realize specialized and socialized animal husbandry production.

Concluding her report, Comrade Xu Lingren said: We will certainly fulfill the strategic goal of developing animal husbandry through grass and tree planting as long as we correctly apply the tenets of Marxism, persistently seek truth from facts, and conduct reforms, create the new, and brave our way forward in line with the natural law.

AGRICULTURE

JILIN PLANS TO BUILD 27 GRAIN PRODUCTION COUNTIES

SK040222 Changchun Jilin Provincial Service in Mandarin 2200 GMT 3 Jan 87

[Text] Jilin Provincial plans to establish 27 commodity grain output base counties in the central areas of the province during the Seventh 5-Year Plan period. Of this, 13 counties, including Yushu, we will be built into corn production bases.

To further develop grain production and bring into play the Songliao Plain's potential for grain output, the state plans to build the province's 13 counties and cities into corn production bases during the Seventh 5-Year Plan period by establishing seven new bases--Jiutai, Shuangyang, Yongji, Yitong, Changling, Tongfeng, and Dongliao Counties--on the premise of the existing six bases--Yushu, Nongan, Dehui, Gongzhuling, Lishu, and Fuyu--which were built on a trial basis during the Sixth 5-Year Plan period. Simultaneously, the state plans to build 14 commodity grain output bases respectively in 14 counties, cities, and districts--on the outskirts of Changchun City and in Shulan, Panshi, Jiaohe, Huadian, Shuangliao, Meihekou, Liuhe, Huinan, Qianguo, Daan, Taoan, Longjing, and Dunhua.

The total investment for the construction of these bases is 525 million yuan. Of this, the state investment is 240 million yuan and the province's investment is 285 million yuan. So far, all counties, cities, and districts are enthusiastically working out plans to build these bases in line with the requirements of the state and the provincial plan, and are making preparations to fulfill the tasks for building these bases.

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AGRICULTURE

ARTICLES ON GRAIN PRODUCTION, COMMERCIALIZATION PROBLEMS

Crux, Solution Suggested

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMICS] in Chinese No 6, 23 Jun 86 pp 18-22

[Article by Liu Yunzhou [0491 0336 3166], Zhou Binbin [0719 1755 1755], Gao Hongbin [7559 7703 6333] and Chen Jian [7115 0256] of the RENMIN RIBAO Rural Areas Department and the Ministry of Agriculture, Animal Husbandry and Fishery Political Research Office:

"Non-Commercialization--Semi-Commercialization--Commercialization: The Crux of China's Grain Problem and Our Way Out"]

[Text] The grain problem is a major problem that has worried and perplexed people in China throughout history. Although grain production has entered a new historical stage at an even higher level, it still is hard to say that China has gotten rid of its worries, and we would be even less able to say that the grain problem has been basically solved.

1. What Is the Crux?

The enormous pressures of serious grain shortages in China several years ago have convinced everyone that the crux of the grain problem is inadequate supply, meaning that the keys to solving the grain problem always are expanded supply and guaranteed supply. The result is that two ideas developed on this foundation continue to hold influence:

One idea is that the reason for slow growth in grain supplies is the low level of the forces of production in agriculture in China. It advocates continually growing inputs to improve the conditions of production and starting with agricultural modernization to develop grain production and expand supply. The other idea is the opposite of this one, and considers inadequate supply to be due to excessively low grain prices. It advocates a substantial increase in grain purchase prices for greater external stimulation of grain production to raise the initiative of the peasants for raising grain. These two ideas might be correct at a specific historical stage or under certain special conditions, but they are not the essence of the problem and as a result they are not very realistic.

Actually, the grain problem that has vexed China for so long is not due completely to insufficient supply or serious shortages, nor is it due to insufficient demand. The fundamental situation is the more than 30 years since Liberation has been insufficient supplies and long-term instability. An even more accurate statement of the situation would be that there is a relative surplus in supplies that has been created by the mutual intersection of inadequate supply and inadequate demand under an overall background of grain shortages and inadequate supplies. The first 30 years were ones of serious shortages and insufficient supplies that peaked during the 3-year period of difficulty [1959-1962]. The rate of growth in grain output has increased every year since 1979 and passed 800 billion jin in 1984, the highest level in history. What followed, however, were repeated regional and structural low-level relative surpluses and loud cries of "difficulties in selling grain." This was followed by an unforeseen and substantial reduction in output and renewed grain shortages on a wide scale throughout China. This historical cycle of worrying about both surpluses and shortages and major fluctuations is without a doubt the result of inadequate supplies caused by too-low grain prices, but it also has resulted from insufficient supplies within low levels of the forces of production. All of this makes it hard to gain a more intensive understanding of the problem and it certainly cannot be said that doing so will provide a fundamental solution to China's grain problem.

The past 30 years of history have proven that a final solution to China's so-called grain problem definitely is not and should not be an absolute numerical standard but should instead be only a relative goal that is manifested primarily as guaranteed equilibrium between supply and demand for every level in every historical stage so that grain and rural industries as well as the entire national economy develop in coordinated and synchronous manner. An understanding from this perspective shows us that the crux of China's grain problem is not inadequate supply, nor is it the level of the forces of production in agriculture or the level of purchasing prices for grain. It is instead that there is no economic development mechanism capable of promoting and guaranteeing equilibrium between supply and demand and achieving coordinated and synchronous development of the rural economy and the national economy as a whole.

II. Dire Straits: The Direct Results of Adherence to the Three Objectives in the Grain Problem

Grain has served as "tribute" and as a welfare good and relief good in China, but it never has really served as a dynamic commodity stimulated by commercialization. Actually, "tribute," welfare goods and relief goods are indicative of the three objectives set up during the initial stages of China's transition from an agricultural into an industrial country. Tribute is an economic goal: Agriculture provides accumulation to promote the development of urban industries, including non-agricultural industries. Welfare goods are a political goal: They are a metamorphized form of accumulation provided by agriculture as well as the bedrock of

economic mechanisms of low wages, low prices and low growth. In its significance for consolidating political power and guaranteeing social stability, the material benefits of this sort of supply have an unusually dense political color. Relief goods are social goals. They guarantee social equality and food safety.

There is no doubt that given the conditions of a self-sufficient economy, adherence to the three goals had obvious benefits for social stability and the development of urban industry in the early stages after the founding of the nation, but the shortcomings also are quite apparent: grain cannot become a commodity and there is no way that the value it should receive as a commodity can be realized in the realm of circulation. The most direct result of this has been that grain often is the least profitable product for producers, so grain production has grown slowly, which has restricted expansion of grain supplies. In the eyes of urban consumers, grain is an inexpensive and essential good for life, so it is not or is only slightly subject to sudden expansion of demand for grain because of restricted purchasing power. As a result, development of the national economy has required the state to bear the pressure from two aspects. One aspect is that in the realm of production, there is an obvious bipolar selective tendency: the state begins with the need to develop the national economy, especially the continually growing grain consumption that results from the consumption demands of a growing population. The state hopes that grain production can grow each year and also urges the peasants to sell grain to the state at the lowest possible price. The peasants in turn consider their own material interests and demand rational incomes after making their inputs, and they must select the most profitable line of production from among rural industries. In another aspect, the relationship between supply and demand and the slow growth of grain supplies that is determined by the tendency for bipolar selection makes it very difficult to maintain equilibrium given constantly expanding demand for grain.

To assure that the three objectives were achieved and alleviate constant pressure, the state adopted a series of reform measures over the past 30-plus years, some of them quite severe. Examples include the unified and assigned purchasing system involved in "taking grain as the key link," the cashier's check system and controls over urban populations, higher purchasing prices and so on. Although each of the measures reduced pressures on the state, they did not lead to a fundamental solution of China's grain problem. Even more important was the fact that since the rural areas of China were in a self-sufficient economic environment where the rural economy was equivalent to the grain economy and the fact that at the time the peasants were bound into the "big and public" [commune] collective economic model, it may have been possible to deal with the grain problem according to this pattern and there even were benefits. Enormous and profound changes are taking place in the rural areas of China today and we must face new contradictions and meet serious challenges.

After the widespread implementation of systems of contractual responsibility for output quotas and the elimination of the unified and assigned

purchasing system, the peasants gained the status and right to select their production activities on the basis of their own advantages or market demand, and their position has strengthened continuously. The peasants now are gradually becoming independent commodity producers who operate independently in the markets.

The self-sufficient economy gradually is being transformed into a commodity economy, market mechanisms are entering the rural economy on a broadening scale and the scope of market regulation is growing continually. All farm products except grain are becoming commodities that are allocated according to the law of value and regulated by the market.

The rural economy now is moving from the traditional grain economy to a modern diversified comprehensive economy, and the rapid growth of non-agricultural industries, especially township and town industries, has broken through the boundaries of the monocultural grain economy. There are obvious disparities in efficiency and income between rural industries and there will be obvious rises in comparative benefits. Grain production inevitably will have to pay ever-increasing opportunity costs and will earn continually declining profits. The critical point in the peasants ability to bear the burden has been passed or is near.

Given this broad background of continual development and change, the latent contradiction in the bipolar selective tendency between the state and the peasants is becoming a direct and real contradiction. The contradiction will provide an increasingly concentrated reflection of the grain that the peasants eat and use themselves. It is apparent between state purchases and peasants sales and it directly affects the equilibrium between grain supply and demand in China at a higher level and in a new historical stage. In a social and economic environment that has already undergone change, the continued use of traditional patterns to solve national problems and the bipolar selective tendency between the state and the peasants will make it quite difficult to find equilibrium between supply and demand at the historical stage of continuous development.

III. Choosing Solutions

Under different historical conditions and concurrent with development of the national economy and increased levels of grain production, and given the changing international environment that our country is facing, China has many different opportunities and outlets to rid itself of the problems it has that are connected to the grain problem. What must be weighed is the cost that must be paid when choosing each of these routes.

1. Large Imports. Reliance on international markets to meet the grain needs of China's enormous population obviously is impossible. Given China's comprehensive invigoration and the thousands of things that remain to be done, and even in a situation of greater national strength in the future, China does not have enough foreign exchange to buy grain to meet domestic demand.

2. Continued large increases in grain purchasing prices. There are at least two obstacles on this road. First, China's rural areas cannot depend on grain production to eliminate poverty and achieve prosperity. The development of grain production is not and absolutely cannot be the only developmental goal for the rural economy, although it is one goal within several. A low price for grain of course does not benefit production, but it does play a positive role: it always maintains a push on the large amount of surplus labor power that is retained in the fields and pushes larger numbers of peasants to shift rapidly into non-agricultural industries, and it encourages the rural industrial structure and the labor force structure to abandon the restrictions of the monocultural grain economy. On the other hand, higher grain prices obviously benefit the development of grain production and they also can create an unavoidable negative force that draws the large surplus agricultural labor force back to the land to raise grain, which has negative effects on the development of non-agricultural industries in the rural economy. If we start with the basic factor of balanced development among the industries of the rural economy and the long-term development of China's rural areas, the price of grain cannot rise substantially but can only be held at a level corresponding to the development of the rural economy. Like many developing countries, the fact that agriculture serves as the basis industry of the national economy means that it cannot take on the historical mission of providing accumulation for urban industry and other non-agricultural industries. An excessively high grain price undoubtedly would be one shortcoming and would consume even greater amounts of the state's material forces for development of the national economy as a whole. Moreover, given the present purchasing and selling system, it would be quite difficult for our nation's resources to sustain a substantial increase in grain prices. Agriculture cannot completely abandon its historical responsibilities.

3. Restore the unified and assigned purchasing system. This is impossible because it is even less favorable to the peasants themselves and to the development of the rural economy. The basic contradiction is that such policies run counter to development of the rural commodity economy.

Of course, an intermediate route can be chosen, which would involve the adoption of the form of contractual fixed purchasing tasks that are now being implemented to expand and guarantee supply. Under the conditions of an extremely acute bipolar selective tendency between the state and the peasants, it would be quite hard to implement contractual fixed purchases. One reason is that contractual fixed purchases require the appropriate preferential measures like pre-payment of fixed amounts, linkages between grain and oils, linkages between grain and fertilizer, reduced prices for chemical fertilizer from small plants, industrial subsidies for agriculture and so on. Another reason is that it requires a certain amount of directiveness and coercion. Even though some of the measures have not been implemented, contractual fixed purchase tasks still are effective because powerful administrative measures guarantee that the contractual fixed purchase tasks will be "distributed at every level and implemented in every household." It is possible that the

selection of this route could attain the grain production index of 900 billion jin by 1990, but a comparison of what would be gained and what would be lost shows the possibility that the losses would exceed the gains. Although central administrative authorities have not increased grain subsidies to a substantial degree, local administrations at all levels including various township and town enterprises have been forced to make substantial increases in their inputs and subsidies for grain production. An even greater cost might be the loss of one of the most important achievements in rural economic reforms over the past few years--the individual status and decision making rights of the peasants, or even the favorable momentum of the creation and development of a vital and vigorous socioeconomic environment and flourishing development of the rural economy. If, therefore, we wish to completely overcome our difficulties, we must give consideration to other routes given the overall background of abrupt changes in the rural economy and national economy. It is possible that there is only one way out: the commercialization of grain.

IV. Be Selective: Relax Grain Sales in a Limited and Staged Manner

It should be said the conversion of grain from non-commercialization to total commercialization is an inevitable historical trend in the social and economic development of China. In today's historical stage of social and economic development in China, however, the complete commercialization of grain is restricted by the law of value and regulated by the market. It also is impossible since the conditions for achieving it are incomplete. The main thing is that as a developing country, China cannot completely abandon the economic goals, political goals and social goals that are determined by the grain problem for a very long time to come. Poor regions require greater assistance and support and consumers who lack basic purchasing power must continue to live. No unified market has taken shape in China and market systems now are being established and perfected. This is especially true of those who have been accustomed for a long time to the planned economic system and who lack the physiological capacity to accept the total commercialization of grain. For this reason, the question of whether to maintain or abandon the three goals requires us to weigh the advantages and disadvantages. An even more realistic alternative is to adopt a flexible pattern that continues to adhere to the three objectives in a limited fashion, which gradually will weaken certain of goals, and new forms should be substituted for traditional forms to achieve the three goals. In other words, the most realistic and feasible alternative is the semi-commercialization of grain: grain should be transformed gradually from "tribute" and welfare and relief goods, and grain sales should be deregulated in stages and in a limited manner to expand the stimulus for the commercialization of grain.

An analysis of the national economy and especially the rural economy at the present time shows that the first thing that must be weakened are traditional economic goals to assure that grain gradually achieves the value due it as a commodity within the realm of circulation. We must gradually assure that the economic goal of promoting grain and balanced development of the national economy is combined with the economic goal of

having agriculture provide accumulation for industry and that the latter gradually replace it. With stronger urban industries and extremely weak agricultural conditions, agriculture will not be able to continue its history of providing accumulation for non-agricultural industries forever. Second, experience in many nations has been that as the traditional economic goals in the grain problem become weaker, the supply system of material welfare subsidies to achieve political goals must be replaced with monetary subsidies. At the same time, improvement in people's income levels and changes in the structure of consumption gradually will lead to the weakening of the political goals themselves. Unlike economic and political goals, social goals also must be strengthened, but new patterns for achieving them must be adopted. Only in this way will it be possible for actual demand for grain to become apparent so that the demand for grain is subject to restrictions by purchasing power and becomes effective demand to control the rapid expansion of demand. Moreover, it is only in this manner that supply can grow gradually according to signals issued by market demand and thereby guarantee that equilibrium is maintained between supply and demand at an ever-increasing number of levels. For this reason, policies related to the demand for grain at present not only should gradually reduce the proportion of state contractual fixed purchasing tasks and gradually expand the proportion of purchasing at negotiated prices. They cannot be concerned only with purchasing and also should gradually deregulate grain sales. Present contractual price policies for purchasing and sales to allocate grain between provinces outside of plans are an extremely important starting point, and they have alleviated the contradiction between supply and demand to a certain degree. They are, however, far from adequate and should be expanded further.

The deregulation of grain sales can be divided into six main steps: First, deregulate grain sales in the economically-developed coastal regions. Second, deregulate grain used in industry. Third, deregulate the grain used for food products, non-staple foods and the brewing and distilling industry. Fourth, deregulate grain rations for the non-agricultural population. Fifth, [deregulate] feed and seed grain. Sixth, deregulate grain sales for poor regions and relief for poor populations. These six major steps cannot be taken at once and the actual process must be divided into several additional stages.

The gradual deregulation of grain sales would lift a heavy burden from the state and lead to a fundamental solution to China's grain problem. This does not, however, imply that the state will never again pay a administrative costs for grain purchases and sales, but only that it will not increase outlays or will increase them only slightly. In addition, it also implies that the state must bear an even greater responsibility and must adopt the appropriate new policy measures.

First, what will be concealed is not the conversion of the inverse subsidies for grain, so familiar to vast numbers of consumers, into open monetary subsidies for a direct one-time subsidy to the urban consuming population. Subsidies should be combined with a gradual increase in the psychological ability of the urban consuming population to accept the

commercialization process of grain so that they gradually become accustomed to purchasing the grain they need for life on the "market."

Second, another part of the inverse subsidies for grain should be converted into a grain reserve fund, with the state holding and reserving grain to smooth out market prices for grain.

Third, study scientific and accurate state grain reserve standards and study China's grains and grain safety coefficients on the basis of the structure of grain consumption in China's population.

Fourth, move gradually into world trade. Focus on China's agriculture, give primacy to self-sufficiency and import and export as appropriate to establish a grain safety system for China on a global scale. Given the current situation of a surplus in grain supplies and insufficient demand for grain on a world scale, as non-agricultural industries and other cash crops are developed in China's rural areas, extremely high real costs and opportunity costs are exchanged for total self-sufficiency in grain. We should strive to adopt an even more positive attitude and engage in world trade, and we should maintain a dynamic balance between domestic grain supply and demand.

V. The Shock Would Not Be As Intense As Everyone Would Expect

It must be acknowledged that additional deregulation of grain sales will have direct effects over a wide realm, and will be most prominent in three areas. The first effect will be intense stimulation of grain production. Deregulation of grain sales in one fell swoop inevitably would intensely stimulate grain production. Grain would develop rapidly and supply would expand immediately. Nevertheless, this is not the desired outcome. China cannot return to the age of "grain as the key link." The first step in a limited deregulation in stages would be to assure a balanced stimulus for grain production along with development of non-agricultural industries within the rural economy. Grain prices cannot be kept too low to restrict the development of grain production, nor can grain prices be allowed to rise dramatically and obstruct or slow the development of non-agricultural industries in rural areas. During the process of sustained coordinated development of all sectors of the rural economy, we must explore the proper degree for deregulation of grain prices in stages. In addition, we also must take note of the situation in which non-agricultural industries are undergoing burgeoning development in rural areas and in which the prices of the means of production used in agriculture are continually rising. We must maintain a sufficient stimulus for the peasants to stimulate their desire to raise grain and assure that the developmental goals for grain stipulated in the Seventh Five-Year Plan are achieved. The degree to which grain prices rise (the price at which the peasants sell grain) should be no less than 20 to 30 percent.

Second, it will have effects on markets, especially on other farm products. There is a traditional view that grain prices are the bedrock of farm product prices. Changing grain prices leads change everything else and

an inevitable chain reaction causes repeated rises in prices for farm products and may even lead to substantial increases in the prices of industrial goods and other consumer goods in turn. However, the current situation is exactly the opposite. Grain prices have not changed in years, having been stable for a long period, while the prices for other farm products have risen substantially in the past without restriction by the "bedrock." If one truly feels that under the present situation, grain still remains the foundation of farm product prices, there is absolutely no reason that given the situation of enormous changes already having occurred in other farm products, we should continue to maintain the selling price of grain at a low level forever.

Third, it could have certain effects on the urban consuming population. The situation in average selling prices for grain throughout China in recent years indicates that grain rations for the urban population account for the largest proportion, about 60 percent. If this portion could be deregulated, then the most important step in the commercialization process for grain would have been taken. If we eliminate social, political and psychological factors, the question of whether or not grain sales can be deregulated will be determined mainly by whether or not the urban consuming population can bear this sort of thing. This is the key to everyone's concern for the intense social shock that could be the result of deregulation of grain prices. Actually, a shock would be inevitable. As the incomes of the urban population rise, however, and changes occur in consumption structures, and as people's psychological capacity increases, the shock would be dissipated at a new level and equilibrium would be reached. The shock would not be so intense and unbearable as everyone expects. A sample survey of the families of urban employees by the State Statistics Bureau shows that family incomes of urban employees have risen continually over the past several years. Their average monthly per capita income was 41.21 yuan in 1982, 43.83 yuan in 1983 and 50.63 yuan in 1984. At the same time, given the rise in consumption levels and changes in consumption structures, especially the absence of change in grain prices for a long period, the proportion of household expenditures of the urban population used to purchase grain has shrunk year after year. The average per capita monthly expenditures of urban employee families on grain in 1982 was 5.06 yuan, or 12.89 percent of total household expenditures. The figures were 5.13 yuan and 12.17 percent in 1983 and 5.26 yuan and 11.28 percent in 1984. If grain selling prices were to rise by 40 percent (the upper limit in preliminary estimates) following the deregulation of grain prices, the average per capita monthly expenditures of the urban population for grain purchases would only be about 7 yuan, which would be only about 15 percent of household expenditures and could be even less than expenditures on clothing. If 50 percent of the total amount of state outlays at present on inverse subsidies for grain sales were used for direct subsidies, expenditures on grain by the urban population as a proportion of household expenses would be reduced even further. At present, only 1.67 percent of the urban population has a household expenditure income of 25 yuan or less, which is a very small proportion. For this reason, the absolute majority of the urban population would not have their standard of living lowered because

of increased outlays for grain purchases that result from the deregulation of grain prices and would have no effect on the overall situation. Of course, during the process of deregulating the grain used in industry, food products and brewing, the expenses of the urban population also would increase, but such commodities, which have a rather high demand elasticity, would reach equilibrium in the balance of consumer selection.

Social and economic development have solved China's difficulties, and they have provided a selective foundation, opportunity and pattern for a basic solution to the grain problem. History compels us to make a correct and heroic choice.

Marketing, Production Issues

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMICS] in Chinese No 6, 23 Jun 86 pp 23-25

[Article by Liu Yunqian [0491 0336 3383] of the Ministry of Commerce Grain Office: "A Discussion of Problems in the Development of Grain Production and Circulation--Some Views on Grain Price Deregulation"]

[Text] Since 1985, everyone has been extremely concerned with the grain problem, from the CPC Central Committee to local areas and from professional work departments to theoretical work departments, and they have been exploring a broad range of new routes for stabilizing the development of grain production and circulation.

To motivate the initiative of the peasants, localities and enterprises in the area of grain production and circulation, the CPC Central Committee and the State Council adopted the following measures in 1985: 1) They reduced the amount of contractual fixed purchases, expanded negotiated purchasing and increased the incomes of grain farmers; 2) They "linked grain with fertilizer" and provided a specified amount of parity chemical fertilizer for the grain specified in contractual fixed purchases, which lowered the costs of grain production to an appropriate degree; 3) They "used industry to support agriculture" and reduced the income differential between planting grain and industry and sideline occupations; 4) They raised administrative expenditures for grain allocations and solved the problems of localities and enterprises that were losing money because of grain allocations. These four measures take economic interests into account to regulate the economic interests between the state and the peasants, between peasants and peasants, between the state and local areas (and enterprises), so they basically utilize the role of the price lever to regulate grain production and circulation. This is an objective requirement that is appropriate for a planned commodity economy. Some comrades have proposed the complete deregulation of grain prices to achieve a basic solution to the grain problem. It cannot be said that this view is incorrect, but there are some questions that deserve study. Below, I will discuss some views on these questions.

1. There Is Serious Irrationality in Grain Price Systems

The "Decision Concerning Reforms in Economic Systems" of the CPC Central Committee pointed out that: "At present, irrationality in pricing systems in China is manifested mainly in: a lack of quality price differences for the same variety of product; irrational price relations between different commodities, especially in the too-low prices for certain mineral products and raw materials; and an inverse relationship between buying and selling prices for major farm and sideline products, with selling prices that are lower than state buying prices." Such problems also can be found in grain pricing systems and are quite prominent there.

The first problem is the fact that grain prices are too low. They are a reflection neither of value nor of the relationship between supply and demand. At present, the peasants lose money when they plant grain and they are unwilling to sell the grain they plant to the state at contractual fixed purchase prices, which is a very real reflection of this problem. Theoretically speaking, for a long time China has not dealt with grain purchasing prices according to Marx. Are they based on production conditions on poor land or are they based on the production conditions of average land? This has resulted in peasants who raise grain on poor land "losing money by planting grain," which has affected the development of grain production and improvements in the peasants' standard of living. A decision at the 3d Plenum of the 11th CPC Central Committee in 1979 raised grain purchasing prices substantially and solved some of the problems arising from too-low grain prices, and grain production developed quickly. In recent years, however, the substantial increase in the prices of the means of production in agriculture have raised the cost of grain production and the problem of losing money by planting grain has become prominent again.

The second problem is that the relative prices for grain and other farm and sideline products is irrational. Compared with major cash crops, grain prices have been at the "bottom of the bowl." When prices were raised in 1979, there also were increases in the prices of many cash crops and farm and sideline products. Moreover, the degree to which they rose was greater than that for grain, so the problem of grain prices at the "bottom of the bowl" persists. Price reforms during 1979 changed to an "inverse 3:7" ratio to set prices for grain and calculated the average prices for three grains: paddy rice, wheat and corn. The purchase price was 0.3582 yuan per kilogram, which was 0.001 yuan lower than the actual purchase price in the past. Because of regional imbalances, the price was even lower in some new commodity grain regions. The prices of other farm and sideline products, however, basically were deregulated, with prices for all of them rising by about 20 to 30 percent. The costs and net profits for major cash crops are higher than for grain, sometimes several times higher, and the area planted in grain decreased dramatically last year. Arrangements for the relative prices for grain and other farm products must apply the law of value correctly and apply the principle of exchange at equal value to achieve the appropriate ratios between the

relative prices for each type of product and the value or form of conversion of each type of product so that the production of grain and other products can receive roughly equivalent benefits by consuming the same amount of labor. Only in this manner is it possible to achieve true compliance with the principle of "no neglect of grain production, active development of the diversified economy."

The third problem is the inverse prices for grain purchases and sales, with a selling price that is lower than the state purchasing price. There was a price differential between grain purchases and sales during the 1950's in China, and the price differential at the beginning generally was kept at 5 to 8 percent. It was reduced gradually afterwards. There was a nationwide increase in the purchasing price for grain in 1961, but selling price for grain in rural and urban areas was raised until buying and selling prices were the same. In 1966, grain buying and selling prices were raised together so as to maintain identity between buying and selling prices. In 1979, buying prices for grain were raised substantially but there was no change in selling prices, so a second instance of inverse buying and selling prices appeared and the degree as well as the time period to which they were inverse also exceeded those of the first instance. Although the current inverse buying and selling prices for grain have played a positive role in stabilizing prices and easing the people's lives, there are many problems. Encouragement of large scale buying and selling would have negative effects on controlling the amount of grain sold, and it would affect initiative to engage in grain commerce and administration and increase financial burdens.

Moreover, problems like small price differentials according to quality in grain pricing systems, and the lack of regional price differentials and seasonal price differentials and other things also urgently demand resolution.

For this reason, the serious irrationality in grain pricing systems has created problems for grain production and circulation, and they cannot be solved merely by price deregulation.

II. Now Is Not the Time for Grain Price Deregulation

First, there is a tendency toward grain shortages. There have been 6 consecutive years of bumper harvests in China's grain production and circulation, so the situation certainly is a very good one. Because of the low amount of grain per capita and low percentages of marketed products however, things seem quite weak. Output in 1984 fell by 28.35 million tons and the state has estimated that purchases declined by 35 million tons (trade grain). Added to the excessive outlays on grain and the fact that they cannot be recovered quickly, a grain shortage has begun to appear and it shows a tendency toward growing. Given these circumstances, deregulation grain prices would not only be unable to play a role in regulating production and consumption but instead would do just the opposite and lead to even greater shortages. When pork prices were deregulated in 1984, the State Council emphasized that the time for

deregulation must be chosen carefully and called in most cases for the selection of a slack sales period or when few were being slaughtered. The contradiction between pork supply and demand is smaller at such times and retail selling prices overall can be stabilized at the level of guidance prices to avoid sudden price increases and assaults on market prices. Grain as a commodity, however, is different from other commodities. Although it is produced seasonally, there is no question of seasonal consumption since everyone must have it every day, so it is a special and irreplaceable product. For this reason, the time at which grain prices are deregulated cannot be chosen during a particular year and can only be done correctly on the basis of a tendency toward overall development of grain production and circulation. It should be noted that 1983 and 1984 were fairly opportune times for deregulation, but a mistake was made. China's fundamental national conditions of a large population and little land is a determining factor in the inability to alleviate the contradiction between supply and demand for grain within the short term. Given this situation, the deregulation of prices should utilize the role of the law of value and encourage production and circulation to restrict consumption and to achieve a tendency toward equilibrium in supply and demand, all of which are extremely necessary. Grain has far-reaching effects, however, so a good time must be chosen. Too early or too late would not work.

The second thing is that the masses could not accept it. When prices were reformed in 1984, consideration was taken of the small amount of grain sales in rural areas and the effects were limited. Rural selling prices first of all were raised to an "inverse 3:7" ratio, while purchases and sales were made at the same price. There were more problems in the cities, however. The unified purchase price for rice, [wheat] flour, corn and soybeans averaged 0.379 yuan per kilogram in 60 cities throughout China, while the unified selling price was 0.309 yuan per kilogram, so the unified purchasing price was 0.07 yuan higher than the unified selling price, an inverse 22.7 percent. The price at the "inverse 3:7" ratio was 0.502 yuan per kilogram, 0.193 yuan higher than the unified selling price or an inverse 62.5 percent. If cities were to buy and sell at the same price as is the method in rural areas, the average price of these four grains would have to rise by almost 0.2 yuan per kilogram. If grain prices are deregulated and grain production is encouraged so that prices for grain, cash crops and industrial and sideline products become rational, the purchasing price also would have to be raised on the basis of the "inverse 3:7" price and the original 50 percent increase would not suffice. Market prices for grain usually are about 60 percent higher than the unified purchasing price at present. The question of whether or not this level could serve as a guidance price after deregulation also should be studied. If we assume a 60 percent price increase, the average purchasing price for these four grains would reach 0.607 yuan per kilogram, which is 0.298 yuan higher than the unified selling price. Moreover, this does not include administrative expenses of approximately 0.08 yuan per kilogram. If prices are deregulated and business is done according to the laws of a commodity economy, compensation for administrative costs would have to be recovered through

selling prices. Moreover, there also should be some profits for the activities, which means that the selling price for grain would have to rise by nearly 0.4 yuan per kilogram. If the chain reaction effects that result from increased grain prices are included, the figure would have been higher. It is therefore, hard for urban residents to accept the increased financial subsidies or the higher wages also would be hard for the state to bear. For these reasons, a total deregulation of grain prices in one fell swoop would lead to rather substantial problems, so it must be carried out in steps.

III. There Must Be a Comprehensive Response to Problems in Grain Production and Circulation

There are three main problems in grain production and circulation at the present time. The first is that the purchasing prices for grain are too low and the peasants are unenthusiastic about raising grain. Second, the irrationality of grain allocation prices impeded grain circulation. Third, the inverse buying and selling prices for grain have led to excessive financial subsidies. Could total deregulation of grain prices achieve a fundamental solution to these three problems? This requires concrete analysis.

The old methods no longer suffice to motivate the initiative of the peasants to produce grain. The basic thing is to deal with policy questions that include systems of production responsibility, prices, pre-production and post-production services, scientific and technical guidance and other areas. At present, if we eliminate the effects of rising prices for fertilizer, petroleum, electricity and other agricultural means of production, it would be impossible to raise labor productivity and lower grain production costs within grain production itself. The reason is that unlike other cash crops, grain is a low-profit commodity, so the only way out is readjustment of grain prices. The readjustment of grain prices involves one step of deregulation and guidance-type negotiated purchases and negotiated sales based on demand and supply trends to propose a guidance-type price level for a specific time period for a local area. Or, it may be based on the two types of prices now current with appropriate increases in purchasing prices for a gradual transition in which grain prices are higher than the average or normal production costs for land of average or inferior quality so that those peasants farming on poor quality land are able to make a certain amount of profit that they can use to accumulate capital and develop expanded reproduction. I feel that the latter method would be the most stable one. Although this may not be totally sufficient and grain production still may not grow, it may be able to solve the problem if we "use industry to subsidize agriculture" and do good work in such areas as pre-production and post-production services and so on.

Similarly, if the administrative measures of the past are used to motivate the initiative of local areas to produce and ship out grain, directive-type planning would be insufficient. The problem must be solved through

the regulation of economic interests. We must assure that grain producing regions have a chance at profiting from shipping out grain and that grain deficit regions make additional outlays for increased in-shipments of grain. This would aid in increasing the initiative of high-yield grain producing areas to produce grain and it would aid grain-short regions in their efforts to develop grain production and reduce in-shipments of grain. It can be said, therefore, that the price question is the core for regulating the economic interests of grain producing and grain-short regions. Currently, allocation prices for grain are set according to unified purchase prices added to fixed allocation administrative costs. This already has become poorly adapted to the needs of grain circulation at the present time. During the last half of 1985, the state made a unified increase in the administrative expenditures on grain allocations, but the degree of increase was rather small and the problem of suffering losses from grain allocations still has not been solved. With an improvement in the situation in the future, continual increases will be necessary. For exactly this reason, if grain prices are not deregulated according to horizontal economic relationships so that they embody actual purchasing prices and expenses as well as additional profits as appropriate with both sides setting prices through negotiations. Profits may be high or low depending upon the supply and demand situation. This would be more conducive to grain production and circulation and it would not affect movements in grain selling prices. Deregulation of grain allocation prices should be combined with contractual responsibility for grain allocations to provide restrictions on prices.

Financial subsidies for grain reached a new historical high in 1984 as a result of increased purchases and sales. They included outlays of 11.7 billion yuan for over-quota purchases at higher prices and price increase subsidies of 3.75 billion yuan. There was a reduction in the amount of fixed purchases in 1985, with sales in rural areas involving purchase and sale at identical prices and grain used for industrial uses being sold at negotiated prices. Although there was a reduction [in outlays] after 1984, the amount of price subsidies in these two areas still reached 12 billion yuan. This sort of price subsidy is a form of state subsidy for plan prices that are lower than values or costs. It is a form of value compensation for exchange at unequal value and is necessary in a theoretical sense.

It is not hard to see from the analysis above that price deregulation is the key to a solution to current problems in grain production and circulation. It is not, however, the only route. There should be comprehensive control and there is an objective necessity for stronger restrictions.

'Rethinking' of Problem Discussed

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMICS] in Chinese No 6, 23 Jun 86 pp 26-29

[Article by Zhang Hongyu [1728 4767 1342] of the Agriculture Press: "Rethinking the Grain Problem--A Discussion of the Effects of Policies, Prices, Science and Technology on Grain Production"]

[Text] The success or failure of grain production has a history, reality and social significance that cannot be ignored. An excellent grain situation is a concrete indicator of a developed state and civilization. This article will start with the significance of the grain problem and analyze current changes and their causes in grain production. It then will attempt to arouse everyone's concern for the grain problem by examining ways to establish intrinsic mechanisms for stable growth in grain production.

I. The Reappearance of Grain Problem

Production responsibility systems have been in effect for 6 years now since the 3d Plenum of the 11th CPC Central Committee, and the stagnant situation of the past in grain production has changed. Grain output in China increased by 102.55 million tons, an average yearly increase in output of 17.09 million tons, equal to a 4.9 percent annual growth rate. Successes in grain production have brought vitality to the rural economy, and they have prepared the objective foundation for a second stage of reforms centered on readjustments in industrial structures.

A new situation in grain production appeared in 1985, with output down by 28.33 million tons compared with 1984. The reality of reduced grain output has awakened everyone to the fact that the present loss of control over grain is only a signal. If we lower our guard, the situation will develop into an even more serious one.

1. China is a large country with a population of 1 billion. Grain was, is and will be the foundation of the entire national economy. Besides meeting basic demand, China cannot supply much grain for conversion and we are substantially behind the advanced nations of the world. The problem is not that there is too much grain, but instead that production falls far below high levels. If we fail to guarantee stable growth in grain production for a long period to come, the rural economy that now is "taking off" may crash.

2. The loss of control over grain inevitably will lead to an overall decline in agriculture that will hold back the national economy. "The cereal grain problem is the basic link in the agricultural system and the key to solving all other problems in agriculture" (Collected Works of Stalin, Vol 12, p 245). Readjustments in industrial structures in rural areas can only be established on the basis of stable growth in grain. Without this, readjustments in industrial structures could abort. If grain fails to meet the needs of the national economy and the people's lives, the rural economy will stagnate and decline and we once again will be forced to unfurl the banner of the food and clothing problem or use valuable foreign exchange to import grain. Such things are nothing new to developing countries. In fact, those countries with the worst prospects for grain production and greatest dependence on imports are precisely those nations with the lowest food and nutritional structure levels and those nations with the most outmoded industrial structures in agriculture.

Raising the grain problem again is not a question of playing the same old tune but instead reveals the loss of control over grain and draws attention to its inherent and profound background. We must summarize the experiences and lessons of history and borrow from the paths taken by the developed nations to avoid renewed "literature fees."

II. Analyzing the Factors Behind the Loss of Control Over Grain

There are, of course, many reasons for the loss of control over grain, and natural disasters and reductions in areas planted are perceptible surface phenomena. Even more important is the fact that there has been a decline in the enthusiasm of the peasants for raising grain, especially commodity grain. This is the result of the "difficulties in selling grain" caused by structural grain surpluses a few years ago as well as the too-low price for grain, rising costs of growing grain, an excessive income differential compared with other activities and other factors. These factors have caused the peasants' interest in grain production to decline and their enthusiasm to invest in land has dropped too quickly. In some regions, grain farming has declined considerably and changed from a primary industry to a sideline industry and "secondary activity."

If we dissect the factors behind the loss of control over grain, it is not hard to see that such ideas are the complex result of many factors as well as the historical vestiges of a low quality of the peasants themselves, which are reflected most succinctly in two areas:

1. Objectively speaking, the crux of the problem in the loss of control over grain is the fact that macroeconomic policy guidance and work concerning reforms in farm product prices have not kept pace with the demands of growth and change. As policy inputs, they cannot in the short run replace a grain policy with instant results like systems of contractual responsibility for output quotas. Moreover, policy-inputs have a stage quality and after a certain time period has passed, the results of policies may reach a "saturation point" to varying degrees and lead to a tendency toward gradual decline. The mechanisms that regulate the rural economy at the present time are in a process of alternating exchange. After guidance-type indices for unified and assigned purchases for farm products were eliminated, complete intrinsic mechanisms for contractual fixed purchases that could replace them did not take form in many regions and temporary "white zones" of [a loss of] control over grain production have even appeared. The second stage of rural reforms now are in a similar period of transition from a directive-type hard-model economy into a guidance-type soft-model economy characterized by a market economy. This process is one of practice as well as of exploration and experience. Added to the "scissor differential" between agricultural and industrial products that has taken shape over time, it is something that cannot be solved by agriculture itself. Grain prices, which are so far detached from value, have lost their former magic now with the growth of all types of activities in rural areas, and this has had an objective effect on progress in the readjustment of industrial structures in rural areas.

2. Systems of contractual responsibility for output quotas have made enormous improvements in the forces of production in rural areas and all industries and activities in rural areas have developed rapidly. Since solving their food and clothing problems, the peasants have been hoping urgently for the intense shock of becoming well-off and finding outlets for their labor power. They want to use capital more effectively and they have an opportunity to choose between grain production and other activities. The more realistic peasants naturally looked toward avenues of production that would allow them to obtain higher profits under equal conditions of labor. However, because of limitations on the peasants' understanding of commodities and managerial levels, more and more peasants are showing a tendency based on their experience by focusing more on traditional "colony effects" and tending to make intellectual choices without thinking things out fully. The greatest problem the peasants face because of excessive production capacity is "what to do?" The waves of the second stage of rural reforms have shoved them toward the crossroads of commodity production. As they move in that direction, they often are at a loss and erroneous "colony effects" push them to another extreme where they form a new "beehive."

An analysis of the factors behind the loss of control over grain objectively suggests this question: The second stage of reforms, which are focused on readjustments in industrial structures, are not limited to "quantitative" reforms in the search for development of each rural activity at more rational proportions. Associated with this process is improvement of the "quality" of the ideas and concepts of the peasants. During the process of practice, restrictions changed to independence and they had to search for rules in the dark. Farmers accustomed to "colony effects" became concerned with the direction of social and economic development, they understood management and they were able to grasp their own lives and intellectual peasants. This process is a long and slow one and requires continual exploration.

III. The Intrinsic Mechanisms of Stable Growth in Grain

Grain production is an important sector of the national economy, and it is objectively regulated and controlled by all types of social mechanisms. Grain management, including industrial policies, production technologies, market supply and demand information, materials supplies, production, processing, storage, shipping, sales and other links must be formed into an organic comprehensive system for coordinated development. Within this system, the loss of any link that "breaks the chain" will affect the capacity for reproduction and expansion in the remaining links.

An analysis of the reasons for a loss of control over grain shows clearly that in the large system that is grain production, problems exist to different degrees in many of the links that require mechanisms for continual perfection and regulation to keep to a minimum the losses and risks that arise through changes in industrial structures and exchange of economic systems so as to create an excellent economic environment

for the second stage of reforms in rural areas so that grain production as a whole becomes a vital and vigorous economic activity.

The establishment of the intrinsic mechanisms for stable growth in grain should, I feel, begin with the three areas of policies, prices and technologies.

1. Assure the effects of policies. Correct policies are a fundamental assurance of guaranteed stable growth in grain and successful readjustments in industrial structures. The key here is "benefits". The successful point of the first stage of reforms in rural areas was the Party's policies of making our millions of peasants well-off by pulling them from the "iron rice bowl" and making it possible for the benefits they receive to be linked directly to their labor. The source of direct economic income was systems of contractual responsibility for output quotas. This is the result of an enormous policy input. The second stage of reforms in rural areas also should focus on "benefits." Such overall social benefits and partial individual benefits should become the primary goal in the formulation of rural policies. When benefits truly deal with the overall identity of the income and labor of workers, their stimulated and devoted spirit inevitably will become an effective source of stimulation to promote stable growth in grain production and readjustments in industrial structures.

Given the social conditions of the modern age, there must be excellent policies for macroeconomic control of the grain production process, and there must be a system to assure that they are effective. Such policy controls include various economic factors. (1) The earliest starting point and what sort of goal should be reached, which are the goal factors. (2) The selection of the optimum from among various models for achieving this goal, which are the selection factors. (3) There are many types of social and natural factors that may affect the control, which are the effect factors. Excellent grain policies include not only the economic interests of the state, collectives and individuals but also include the corresponding control and regulation mechanisms. Under these mechanisms, the contradictions involved in coordinated development and mutual breakthroughs for all activities in rural areas can be alleviated and fused to attain to the greatest possible extent the goals that had been predicted.

The conclusion is that macroeconomic agricultural policies should be based on the interests of the peasants and assuring grain production and, with a prerequisite of stable growth in grain production, they should involve readjustments in industrial structures in rural areas. A high degree of ideological attention should be placed on the fact that "the grain problem is the basis of all other problems" (Collected Works of Lenin, Vol 30, p 1950. We must successfully integrate the three principles of "no stability without grain, no prosperity without industry and no vitality without commerce." Otherwise "chaos without grain" definitely is not merely alarmist talk.

2. The theory of market prices for grain. Grain prices that are too low are the main factor behind the loss of control over grain production. It can be said that grain prices are a simple means of regulation rather than that they are a basic embodiment of the effects of a policy. "Cheap grain hurts the peasants. If your grain prices are too cheap, the peasants will not raise grain. This question certainly is deserving of attention" (Selected Works of Mao Zedong, Vol 5, p 317). If grain prices are too low, it will be impossible to assure the best social and natural factors and to raise the initiative of the peasants for growing grain. For these reasons, I feel that there should be a sort of a market price for grain, which would involve the use of market mechanisms to control fluctuations in the price of grain so that the price of grain moves roughly in accord with the amount of material labor and live labor consumed.

As for the special functions of prices themselves, they not only can regulate production and management activities and have an effect on the incomes of producers but also can affect the flow of social and natural resources and promote the deployment and readjustment of industrial structures to develop agricultural science and technology. Moreover, they also can play a role in consumption behavior and guide changes in consumption structures and so on, so they have an even more effective function in many areas than do other economic measures. Market prices for grain make full use of this characteristic of prices and lead to the independent formation of grain prices depending upon market mechanisms. The state exercises macroeconomic guidance over their implementation and administration and makes use of certain economic measures for additional control and regulation. It is very easy for such prices to have an effect on the managerial choices of producers, and they lead to minimal differences in income between raising grain and other activities and avoid inequalities in opportunities for selection. In addition, such prices also can regulate the output of grain products and improve quality. Market prices for grain change as market conditions change. The production of each type of grain as well as the production of whatever resources are needed are determined by market buying power and social demand. Producers have full freedom of choice and can regulate different production activities according to differential benefits in the markets so that market prices for grain become an intrinsic motivating factor in assuring stable growth in grain.

Of course, market prices historically have been an extremely sensitive question in the activities of a commodity economy. Moreover, China is a large country and grain is a product that concerns the national economy and the people's livelihood and which has limited demand elasticity. For these reasons, we must be as careful as possible. We have no desire for market prices for grain to become a "technique for getting a little gold" to solve the grain problem as a whole. Instead, we hope that they will be combined with a series of effective state macro administration and macroeconomic measures that will raise grain production to new levels. The implementation of market prices for grain should be done selectively and in local areas to "test the stones while crossing the stream" and continually explore experiences in practice to perfect them.

3. Breakthroughs in agricultural science and technology. The development of grain production depends upon policies as well as science. Policies are effective over a limited period, but science and technology are a boundless force. Grain production is not just a matter of a whole series of social, political, economic and other questions. It also touches upon technology itself, so research is necessary on handling, processing, storage, shipping, sales and other production and post-production links. There are several avenues to take to expand grain output. One is to increase total output of grain. The second is to practice intensive processing and comprehensive utilization of grain. The former can be called primary production and the latter secondary production. Both are dependent upon the forces of scientific and technological progress. In his article "Problems of the Socialist Economy in the Soviet Union," Stalin pointed out that "the problem here was not merely one of technology, but instead the failure of technology to progress. It must progress continually, day after day, and old technologies must be abandoned and replaced by new ones, which are then replaced by even newer technologies. Without this, sustained progress of socialist agriculture in the Soviet Union would be unthinkable, as would bumper harvests and an abundance of farm products" (Selected Works of Stalin, Vol 2, p 608). The rapid development of the modern scientific and technological revolution has taken mankind through several major agricultural revolutions in modern times to enable the optimum benefits from production with the minimum amount of environmental destruction as well as the most comprehensive utilization of all products to create beautiful prospects for grain production.

The characteristics of stable growth in grain and modern science and technology determine that the focus of primary production technology for grain should be: (1) Breeding and popularizing improved varieties. The selective breeding of improved varieties is a stable and reliable route to increased output in agriculture that requires few investments, gives results quickly and provides high benefits. Positive steps can be taken to organize breeding, hybridization of superior traits, male sterility, cultivation of [varieties with] radiation-induced changes and other biotechnologies and genetic engineering technologies to popularize high yielding superior quality varieties. (2) Comprehensive technological measures. This refers to the integration of traditional Chinese cultivation patterns with modernized agricultural science and technology so that biotechnologies are integrated with physical technologies and organic agriculture is integrated with inorganic agriculture to form a comprehensive and fully-outfitted set of technological measures for increasing grain output so that we attain the goals of superior quality, low [energy] consumption, high benefits, lack of expense and wide effectiveness.

The focus of secondary production in grain is intensive development and comprehensive utilization, which are effective ways to increase grain output. Intensive processing and development refer to reliance on scientific and technological progress and discoveries and the application of industrial measures to convert a variety of nutritious grains into foods that are rich in complete nutrition. They would develop the food

products to transform the current situation in grain production, which remains at the stage of simple conversion of solar energy through the utilization of plant growth mechanisms. Comprehensive utilization is based on the availability of greater amounts of grain to allow growth in animal husbandry and development of the food industry to convert surplus grain into meat, eggs, milk and other animal foodstuffs. Secondary grain production increases the economic results of grain farming and provides more ways to convert higher grain outputs. It can come to depend gradually on multilayer utilization and conversion of grain to develop more industries and increase the proportion of animal foodstuffs in the people's diets. This would change food structures, increase everyone's physical nutrition and satisfy the need for social and economic development, and it would raise peasant incomes.

There is enormous potential for increased grain output in the future, but the restriction we face is neither labor power, capital nor materials. Instead, it is the need to understand crystallized inputs and highly developed agricultural science and technology before true breakthroughs are possible. This will assure that the mechanisms of grain production will prosper and not fail.

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AGRICULTURE

REFORM OF YUNNAN'S GRAIN-FINANCE MANAGEMENT URGED

Kunming YUNNAN RIBAO in Chinese 26 Sep 86 p 3

[Article by Sun Guoqi [1327 0948 2759]: "Reform of Grain-Finance Management System Is Imperative"]

[Text] Yunnan has long followed the policy of centralized purchases and sales of grain and practiced centralized management of grain finances, in which the state "took care of all income and all expenses, all profits and all losses." For a while this system played a positive role in developing grain production and in ensuring urban supply of grain. But following the readjustment in rural economic policies and the steady advance of urban economic reform, centralized grain purchases have been replaced by contract procurement, particularly since last year. And changes in rural policies on purchase and sale prices for grain and oil, in the fees charged for interprovincial transfers of grain and oil and in the quotas for grain turnover and storage have undermined the old single-channel system of grain circulation. As a result, the old grain-finance management system no longer meets the new needs associated with increased grain production and with urban grain circulation. Reform, therefore, is imperative.

We have failed to link grain production with economic interests. Planning and administration of grain procurement, sales and transfers are concentrated in the hands of the provincial government, which handles all revenues and expenses therefor. But grain production is controlled at prefectural and county levels, which arrange and determine what crops will be grown and how many mu will be planted. The present policy of transferring grain from places with high outputs without rewarding those places reduces incentive for grain production. The places receiving the grain do not have to shoulder any economic responsibility and thus do not feel any pressure and even think the grain they receive is rightfully theirs. Whether a locality has grain transferred out or in and whether or not that locality fulfills its grain procurement quotas does not directly affect the economic interests of the government of that locality. Thus some localities consider only immediate or local interests and blindly restructure production, excessively reducing grain-sown areas, and some places unilaterally reduce their own contracted procurement quotas and greatly increase their in-shipments or reduce their out-shipments of grain. To make up for the resulting shortfalls in grain production and sales within the province, Yunnan has had to bring in more

grain from other provinces, which move has increased the province's financial burden by approximately 40 million yuan.

The divorce of grain circulation and local finances has weakened local supervision and control of grain-enterprise finances. Yunnan's grain industry has a total of over 1,400 independent accounting units, which are located in every county and district of the province and thus are numerous and widely dispersed. For many years, the province's entire grain-finance system has been accustomed "to eating out of the same big pot." But grain purchases and sales actually take place at prefectural and county levels. Such matters as how much grain is to be procured, what types of grain will be supplied to cities, and how grain supply is to be arranged are determined by local governments according to plan. Yet local finances are not directly affected by the losses incurred in this process, and local governments do not have to make these losses up. Experience has shown that provincial financial supervision alone cannot do the job effectively—"the whip just isn't long enough." We fail to provide regular, timely and effective guidance and help for enterprise management and financial control, and supervision and inspection have been lax. This has led some grain enterprises to ignore financial and economic discipline and accounting regulations, to pad expenses, to raise their expenditure limits without approval and to issue bonuses, subsidies and goods irresponsibly. Some enterprises have unsound management systems and store grain so poorly that much grain mildews or rots, causing serious losses and waste. Some enterprises blindly transfer grain, make circuitous deliveries, make unauthorized additional sales of grain at parity prices and thus cause greater losses. And some enterprises even try to obtain special favors from the state, operate illegally, profit from loopholes in the state's multiple-price system for grain, sell grain back and forth internally, buy and sell grain that does not exist, deceive people, report false increases in grain procurement, illegally buy up supraquota grain and deal in prices exceeding price surcharges for supraquota grain sales, thus hurting the national interest.

The key to solving the above problems is to emphasize grain production and to strengthen grain-enterprise management, and reforming the grain-finance management system provides an important way to attain this goal. In view of conditions in Yunnan and other provinces and in the absence of changes in current procurement, price and marketing policies, we may consider, as a first step, having the province contract responsibility for grain purchases, sales and transfers out to prefectures, autonomous prefectures and cities. Under this approach, money would go wherever grain goes, and the authority to set the standards for policy-induced losses (including losses from dealing in parity-priced grain and oil and from subsidies for increased grain and oil prices) would be transferred downward to prefectures, autonomous prefectures and cities. To avoid interfering with the efforts of subsidized prefectures to reduce their dependence on subsidies, we must issue grain contract quotas individually for 3-year terms, refrain from subsidizing additional losses and permit enterprises, prefectures, autonomous prefectures and cities to share the subsidies that would have been used to cover any losses the above entities successfully reduce. After this approach is employed for 3 years and we have gained some experience in this work, we should take the second step, namely, contracting grain purchases, sales and shipments out to counties. This

approach, which "contracts grain work out, links finances and grain and provides for separate management at different levels," possesses the following advantages. It helps CPC committees and governments at every level correctly and thoroughly implement the policy of "never slackening grain production and actively diversifying output"; rationally restructure, in accordance with actual conditions, local output; and undertake overall planning for the purchase and sale of grain and oil on local markets. The approach also promotes change away from the "big pot" syndrome that has long persisted in grain finances, fully mobilizes the enthusiasm of local financial departments, strengthens supervision and control over grain-enterprise finances, encourages grain departments actively to revitalize purchases and sales, improves accounting work, strengthens financial and economic discipline, reduces unreasonable losses and subsidies and induces grain enterprises to rectify their guiding ideology, change their way of doing business, strive to improve management, improve internal economic and job responsibility systems, continually improve management and make management more scientific, reduce losses and waste and improve economic results and social benefits.

12919

CSO: 4007/39

AGRICULTURE

FACTORS BEHIND SHANGHAI'S INCREASED GRAIN OUTPUT ENUMERATED

Beijing NONGMIN RIBAO in Chinese 29 Sep 86 p 2

[Article by Zhu Shuiyun [2612 3055 0061]: "Shanghai Suburbs Register Steady Growth in Grain Production; Agricultural Inputs Increase, Production Services Improve"]

[Text] In restructuring crop mixes, the Shanghai suburbs, which have fairly well developed township and town industry, have attached great importance to grain production, so the their grain-sown area has grown steadily, reaching, according to statistics, 3,278,000 mu this year, an increase of 408,000 mu, or 14.2 percent, over 1984.

Shanghai's suburbs attach great importance to increasing agricultural inputs and improving agricultural production conditions. This year, in addition to agricultural investment provided by municipal financial departments, financial agencies in 10 suburban counties invested more than 69 million yuan in agriculture, an increase of more 24 million yuan, or 53.3 percent, over the the previous year. These funds were used primarily for farmland water conservation projects, breeding improved crop varieties, disseminating advanced agricultural technology, subsidizing grain production, etc. Each township and village appropriated special "industrial subsidies for agriculture" to improve agricultural production conditions. For example, in 1984 and 1985, 246,900 yuan were invested in agriculture in Lianhe Village, Baihe Township, Qingpu County, which amount equalled 29.3 percent of the profits earned from village-run enterprises and averaged 134 yuan for each mu of farmland. The village used these funds to rebuild four overpasses and lay 2,000 meters of roads for farm machinery, construct a new electric irrigation station, purchase 3 small water pumps, build 2,000 meters of covered drains and add new plant-breeding factory equipment, medium tractors, seedling transplanters, trench diggers, harvesters, wheat crushers, mechanized sprayers, etc. Improvement in agricultural production conditions not only increased agricultural output put also freed up part of the labor force to support township-run industry. When industry earns money, it can support agriculture and thus initiate a benign cycle of growth.

In recent years, Shanghai's suburbs have devoted much effort to ensuring that the cooperative economy properly serves contractor households and boast 1,437 service teams (group stations)--which are located in 48 percent of all the

villages of the suburbs, 3,765 specialized service teams (stations) and a total of more than 67,000 service personnel, an average of 22 per village. The general service group in Tengjia Village, Qianqiao Township, Fengxian County has set up subordinate agricultural machinery, plant health, drainage and irrigation, and seed and rice-nursery factory teams, which assume responsibility for providing mechanized-plowing, plant-health, mechanized-transplanting, harvesting and produce-shipping services before, during and after production on all of the village's farmland. Contractor households, on the other hand, are responsible for fertilizer application, weeding and other field management work. Thus agricultural production is gradually becoming specialized.

12919

CSO: 4007/36

AGRICULTURE

HERBIVORE RAISING ENCOURAGED FOR HEBEI

Shijiazhuang HEBEI RIBAO in Chinese 24 Sep 86 p 4

[Article by Zhang Yingchao [1728 6601 3390]: "Hebei Enjoys Great Prospects for Herbivore Raising"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, the committee's concern for animal husbandry, the implementation of new rural economic policies and the restructuring of rural production have spurred growth in animal husbandry. The raising of pigs, chickens, and other animals is flourishing, allowing Hebei's animal-husbandry production to advance beyond self-sufficient or semiself-sufficient economies, in which people "raise chickens in exchange for salt and raise pigs to eat at at New Year's celebration," to more specialized, commercialized and market-oriented production. Raising pigs and chickens requires grain, and the growing number of pig and chicken populations is affecting demand for corn and other grains, and if corn prices increase, feed prices will rise too, thus making it difficult, in turn, to raise grain-consuming animals. However, cattle, sheep, goats, donkeys, rabbits, and other herbivores require little investment to raise and show speedy results, have little fat and produce much lean and tasty meat that is popular with the public. Therefore, since Hebei has a considerable number of pigs and chickens, a new turnaround and new developments may be required for the growth of the province's animal husbandry.

According to experts, there are many reasons for this growth, one of which is objective economic need. Everyone knows that, in producing meat and eggs, pigs and chickens primarily consume grain. Raising one pig takes more than 100 jin of grain, and one chicken requires 60 jin. But Hebei's grain output is still quite low, averaging less than 400 kg per person a year. If we make full use of coarse feed, however, we will be able vigorously to expand herbivore raising. For herbivores mainly eat grass; make effective use of agricultural products and byproducts such as straw, grass and seed cakes; and do not compete with humans for grain. Herbivore raising thus is not affected by feed-price fluctuations, and the dung of such animals provides a low-cost, highly effective organic fertilizer which can increase grain and cotton yields. With so many advantages, who wouldn't want to raise such animals! A second factor behind the growth in Hebei's animal husbandry is the need to continually improve the people's standard of living. People need dairy

products and the meat and milk from cows, sheep and goats. But Hebei's cattle, sheep, goat and rabbit output and per-capita output of meat and milk from cows, sheep and goats are much, much lower than the world average, lower still when compared to developed countries, and are even lower than some other Chinese provinces and municipalities. But in terms of manpower, soil fertility, technology and natural resources, Hebei has the potential to accelerate the growth of her animal husbandry industry.

First, Hebei has an abundance of forage grass and feed. The province possesses 70 million mu of pasture, including almost 50 million mu in mountains and more than 20 million on plateaus. There are also 1.85 million mu of planted pasture, and more than 600,000 mu have been fenced in. Each year Hebei can produce 4 million tons of natural forage grass, more than 22 million tons of corn stalks, millet straw, other kinds of straw and 1 million tons of cottonseed cakes and hulls. Estimates of Hebei's pasture resources and crop byproduct output suggest that the province can support 44 million sheep, yet only 32 million sheep are now being raised. Herbivore raising will have a great growth potential if we make full use of existing forage-grass resources and planted grass, plant multi-use forage forests, promote corn silage and ammoniation of straw, return crop byproducts to the soil in the form of dung and, especially in poor mountainous areas, make pastures out of land that yields very little grain. Chengde and Zhangjiakou prefectures have long had a good foundation for the increased rearing of such herbivores as cows, sheep and goats, possessing large areas of pasture and slopes where grass flourishes, low grain output and few cash crops. Thus these two prefectures can give full play to their advantages in animal husbandry and would benefit even more if they supply farming areas, plains, and semi-mountainous areas that have plenty of straw and grass with young animals to raise up to the fattening stage, which process would then be carried on elsewhere. Areas deep within the Yan Shan and some of the counties on the loess plateau are well suited to the development of sheep and goat production, which requires little investment, has a short turnover period, shows results quickly and earns large profits. Sheep and goats are good at climbing steep slopes and are well adjusted to the geographical conditions of the mountains, which are large in area, possess little farmland and have varied climates and good plant cover.

Second, Hebei has abundant varieties of farm animals; the strains of cattle, sheep, goats, donkeys, rabbits and geese the province raises are well suited to local conditions. The province's main cattle varieties are the Mongolian and the Ji'nan. The main sheep and goat varieties are the Mongolian sheep, the big-tailed cold-weather sheep, the small-tailed cold-weather sheep, the Wuan goat and the milk goat. In recent years, there have been improvements in cattle varieties, with the breeding of the steppe brown ox, improvement of semi-fine wool sheep and imports of other improved sheep varieties. All of these are important varieties in the development of Hebei's herbivorous animal husbandry. Other strains, such as the Taihang donkey of mountain areas and the Bohai donkey of the coastal plain, can tolerate coarse feed and are easily raised.

Third, Hebei's animal husbandry industry has already established an animal breeding system and possesses a fairly good foundation in breed selection,

cross-breeding, and artificial insemination. Thus the province possesses technological support for the vigorous expansion of herbivorous animal husbandry.

Fourth, sales are growing. Due to improvements in urban and rural standards of living and increased exports of meat products, demand for the meat of cattle, sheep, goats, donkeys and rabbits has greatly outstripped supply. Meat shipping and sales are facilitated by Hebei's proximity to Beijing and Tianjin and the province's access to the port of Qinhuangdao and to an extensive railway network. We need not worry about sales as we vigorously expand herbivorous animal husbandry.

The development of the animal husbandry industry makes restructuring of the industry both necessary as well as possible. Leaders at every level should stress these matters, take into account the variety of local natural resources and the varying ways that different animals use these resources, tailor production to suit local conditions, unleash peasant enthusiasm for animal raising by allowing peasants to decide for themselves which types of production and which animal varieties are best, and create favorable conditions in every sphere, from organization to technology, for the development of herbivorous animal husbandry. If all this is accomplished, Hebei's animal husbandry will surely enter a new phase during the Seventh 5-Year Plan.

12919

CSO: 4007/36

AGRICULTURE

HUBEI: CONFERENCE ON AGRICULTURE, ANIMAL HUSBANDRY ENDS

HK130123 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 11 Jan 87

[Excerpts] The conference on agriculture and animal husbandry held by the provincial government concluded in Wuhan yesterday. The conference demanded that all places clearly understand the situation, define tasks, persist in reform, step up service work, maintain the continuous and steady development of agriculture and animal husbandry of our province, and contribute toward the promotion of agriculture of our province.

Provincial party committee Deputy Secretary Qian Yunlu attended the conference and spoke. Vice Governors Wang Hanzhang and Han Nanpeng attended the conference. Wang Hanzhang made a report.

While fully affirming the achievements already scored last year, the conference emphatically studied the key measures for realizing the target of struggle of our province in agriculture for this year. The comrades attending the conference held: Our tasks are arduous in promoting agriculture this year. However, our province has had the foundation for a bumper agricultural harvest for several consecutive years, has made early mobilization and preparations for wresting a bumper agricultural harvest this year, and has grasped relatively firmly autumn sowing and farmland and water conservancy construction. The central authorities and provincial party committee have further adopted a series of preferential policies and measures. So long as we carry out all aspects of work, it is completely possible to realize the target of struggle in agriculture.

The conference put forward four demands on agricultural and animal husbandry work in 1987:

1. In the light of realities, all places must define the tasks and targets of agricultural and livestock production this year.

Grain production areas and mountain areas must not relax grain production in the slightest. We must handle well the relations between grain and diversification, between grain and township enterprises, and between grain and the commodity economy as a whole. We cannot take the road of reducing grain production while agriculture [words indistinct]. We must resolutely ensure that the province's gross output this year is 23.5 billion kg. We must

implement the series of preferential policies on and measures for grain production to the letter as soon as possible. Cotton is one of Hubei's strong points. We must not disregard it.

We must strive for 10 million dan and above. In oil-bearing crop production, we must make the low-yield areas increase production so as to ensure balanced production. We must establish the concept of large-scale agriculture and freely develop diversification.

We must change the situation in the reduction of silkworm cocoons for 3 consecutive years. We must grasp pig and livestock production. We must greatly develop herbivorous animals. We must adopt policies and measures to protect pig-breeding specialized households and to protect sow production.

2. It is necessary to persist in reform, to carry out reform in depth, and to step up service work. Reform of agricultural and animal husbandry departments must be carried out in coordination with reform of the rural economy as a whole.

We must develop the system of contract for technology, do a good job in operation and service, establish a system of service, and put it on a sound basis.

3. It is essential to base our work on combatting disasters, to step up farming preparations, and to do support-agriculture work. At present, we must pay attention to storing and protecting water. Departments concerned must step up the production of means of production and vigorously supply goods.

4. It is imperative to further strengthen leadership over agricultural departments and to further support agriculture. Party committees and governments at all levels must help agricultural and animal husbandry developments solve practical problems, resolve their difficulties, and get rid of their worries.

/9274

CSO: 4006/363

AGRICULTURE

BREIFS

HUBEI BUMPER HARVESTS—Hubei's 1986 grain output was 22.7 billion kg, a record. In cotton output, the province rose from fourth in the whole country to third. Total agricultural output value was 20.8 billion yuan, an increase of 6 percent over 1985. Average peasant net income rose by about 30 yuan. [Summary] [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 31 Dec 86 HK] /9274

HUNAN AGRICULTURAL ACHIEVEMENTS—Hunan planted grain on 78.67 million mu in 1986, an increase of 1.25 million mu over 1985. Total grain output may reach 25.5 billion kg, an increase of 500 million kg. The total sown area of industrial crops was 11.83 million mu, an increase of 890,000 mu over 1985. Big increases were recorded in 13 major industrial crops with the exception of cotton, tobacco, jute, and bluish dogbane, whose sown area was reduced and output fell in line with the state plans and market requirements. The rural areas achieved the goal of one pig per person. It is estimated that 24.5 million pigs were marketed during the year, an increase of 7.1 percent over 1985. The number of cattle at yearend was 3.55 million, an increase of 2 percent. Total output of aquatic products may reach 360,000 tons, an increase of 12.5 percent. Total income of the township and town enterprises was 13 billion yuan, a rise of 3 billion yuan. Total rural output value, including the village-run enterprises, is estimated at 19.7 billion yuan, an increase of 7 percent over 1985. About 460,000 peasants have been basically extricated from poverty. [Summary] [Changsha Hunan Provincial Service in Mandarin 0100 GMT 2 Jan 87 HK] /9274

SHANDONG FARM MACHINERY—According to statistics, to date Shandong Province possesses farm machinery whose total power has reached 33.5 million horsepower and whose total value has reached 7.4 billion yuan. Thus, the province occupies first place in the country in this regard. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 30 Dec 86 SK] /9274

CSO: 4006/363

LABOR

REGULATIONS ON WORKERS' CONGRESS PUBLISHED

OW280757 Beijing XINHUA Domestic Service in Chinese 0630 GMT 11 Jan 87

[Regulations on Workers' Congresses of State-run Industrial Enterprises Adopted on 15 September 1986]

[Text] Beijing, 11 Jan (XINHUA)--Chapter I General Principles

Article 1. These regulations are formulated to protect the democratic management powers of the workers and staff members of state-run industrial enterprises, bring into full play the initiative, wisdom, and creativity of the workers and staff members, manage well state-run industrial enterprises, and develop socialist economy.

Article 2. While practicing the system of the director assuming full responsibility, an enterprise must institute or improve the system of workers' congresses (or workers' general membership meetings, similarly hereinafter) and other democratic management systems. It must also safeguard power and give play to the role of the trade union organization and the representatives of workers and staff members in examining major policy decisions of the enterprise, supervising the administrative leadership, and protecting the legal rights and interests of the workers and staff members.

Article 3. The workers' congress is the basic form of democratic management in an enterprise, and is the organization through which workers and staff members exercise their democratic management powers.

The enterprise trade union committee is the working body of the workers' congress, doing the day-to-day work for the latter.

Article 4. The workers' congress accepts the ideological and political leadership of the primary party committee (including the committee of general party branch or the committee of party branch in an enterprise where there is no primary party committee, hereinafter referred to as party committee for short), implements the principles and policies of the party and the state, correctly handles the relationship among the state, the enterprise and the workers and staff members, and exercises its functions and powers within the limits of law.

Article 5. The workers' congress should actively support the plant director in exercising his or her functions and powers in making operational and management decisions and providing unified direction for production.

Article 6. The workers' congress practices a system of democratic centralism.

Chapter II. Functions and Powers

Article 7. The workers' congress exercises the following functions and powers:

1. To hear the plant director's work report regularly; examine the operational principles, long-range and annual plans, major technological transformation and technology import plans, workers' training plans, budgets, final accounts, and enterprise-owned funds allocation and utilization plans of the enterprise; and make comments and suggestions and adopt resolutions on the aforesaid matters;
2. To approve after examination the plan for the system of economic responsibilities, the wage readjustment plan, the bonus distribution plan, the plan for labor protection measures, the regulations on reward and punishment, and other rules and regulations put forward by the plant director;
3. To decide after examination the plan for the use of workers' welfare funds, the workers' housing allocation plan, and other important matters concerning the well-being of the workers and staff members;
4. To evaluate and supervise the leading cadres at all levels of the enterprise, and make suggestions on their reward, punishment, appointment and removal;

Rewards, including promotions in rank or position, may be recommended for meritorious cadres; and removal or demotion in position may be recommended for cadres who fail to perform their duties satisfactorily;

Punishment, including removal from post, may be recommended for cadres who are irresponsible in work or take advantage of their powers to pursue private interests and cause serious consequences; and

5. When the authorities concerned appoint or dismiss the administrative leaders of an enterprise, they must fully consider the opinion of the workers' congress. The workers' congress may recommend the candidates for the plant director's position or elect the plant director in a democratic way in accordance with the arrangements made by the authorities concerned. The recommended candidates or the result of the election are to be submitted to the authorities concerned for examination and approval.

Article 8. When the workers' congress disagrees with any decision made by the plant director according to his or her functions and powers, it may make suggestions to the plant director or report the matter to the higher-level trade union.

Article 9. Collective contracts or agreements may be signed at the workers' congress between the plant director as the representative of the administration and the trade union president as the representative of the workers and staff members to make commitments to ensuring the fulfillment of common objectives in enterprise development.

Chapter III. Representatives of Staff Members and Workers

Article 10. Staff members and workers of enterprises who enjoy political rights according to the law may be elected representatives of staff members and workers.

Article 11. Representatives of staff members and workers should be directly elected by staff members and workers from each work group or workshop section. Representatives of staff members and workers of large enterprises may also be elected by representatives of staff members and workers of each branch or workshop of the enterprises.

Article 12. Representatives of staff members and workers should include workers, technicians, management personnel, leading cadres, and staff members and workers in other areas. Representatives of administrative leading cadres of an enterprise and its workshops and various offices should generally account for one-fifth of the total number of representatives of the enterprise. Representatives of young and female staff members and workers should be in proportion to the percentage of the total young and female staff members and workers in an enterprise.

In order to absorb experienced technical and management personnel into a workers' congress, a certain number of representatives of these personnel of an enterprise or its workshops may be elected through democratic procedure.

A delegation (or group of representatives) is to be formed by the representatives of staff members and workers of each branch, workshop, and office (or a number of offices) of an enterprise. A head is to be elected for each delegation (or group of representatives).

Article 13. Representatives of staff members and workers are to be elected for a 2-year term, and may be reelected.

Representatives of staff members and workers have the responsibility of reporting to the staff members and workers of the electing unit. Staff members and workers of an electing unit have the right to supervise or dismiss their representatives and elect new ones.

Article 14. Rights of Representatives of Staff Members and Workers:

1. Representatives of staff members and workers have the right to elect, to be elected, and to vote at the workers' congress.

2. They have the right, as members of the workers' congress or its work organs, to take part in reviewing the implementation by the enterprise of workers' congress' resolutions and motions. They have the right to take part in interpellating the enterprise's leading administrative personnel.

3. They are entitled to enjoy regular benefits for the production or work time they spend on activities organized by workers' congresses.

No organization and individual are allowed to suppress, hamper, or retaliate against representatives of staff members and workers in carrying out their democratic rights.

Article 15. Obligations of Representatives of Staff Members and Workers.

1. Representatives of staff members and workers should study hard the party and state's principles, policies, laws, and regulations; and make continuous efforts to enhance their political consciousness and improve their technical, vocational, and management ability.

2. They should maintain close contact with the masses, safeguard staff members' and workers' legal interests, truthfully reflect their opinions and demands, conscientiously carry out workers' congresses resolutions, and properly accomplish all tasks entrusted to them by the workers' congress.

3. They should set an example in obeying the state's laws and regulations, as well as their enterprise's regulations and work discipline. They should do well the job assigned to them.

Chapter IV. Organizational System

Article 16. The workers' congress is to elect a presidium to preside over the congress' meetings. Members of the presidium should include workers, technical workers, management personnel, and leading cadres of an enterprise. Workers, technical workers, and management personnel should account for more than half of the total members of the presidium.

Article 17. Members of an enterprise's management committee from representatives of staff members and workers are to be elected by the workers' congress.

Members of an enterprise's management committee from representatives of staff members and workers should report their work to workers' congress, and are subject to the congress' supervision. The workers' congress has the right to dismiss its enterprise's management committee members and delegate new ones.

Article 18. The workers' congress should hold a meeting at least once every 6 months. Each meeting must be attended by at least two-thirds of the representatives of staff members and workers.

An ad hoc meeting may be held to discuss important matters at the suggestion of the factory manager, enterprise trade union, or one-third or more of the representatives of staff members and workers.

Elections and resolutions at a workers' congress must be approved by the majority of the attending representatives of staff members and workers.

Article 19. The workers' congress should set topics for discussion centering on invigorating enterprises, facilitating technical progress, and improving economic results; as well as topics in connection with the enterprise's operations and management, its distribution system, life of staff members and workers, and other important matters.

Article 20. Matters decided by the workers' congress within its authority are not to be amended or revised without the congress' agreement.

Article 21. Based on need, the workers' congress is to set up a number of small but highly efficient temporary or permanent specialized groups (or specialized committees, same in the following) to handle matters entrusted to them by the workers' congress. The major tasks of these groups or committees are: to examine motions put forward to workers' congress; with the power delegated by the workers' congress, to examine and approve temporary issues within their areas of work during the recess of a workers' congress session, and to report them to the workers' congress for final approval; to review and supervise concerned departments' handling and implementation of workers' congress' resolutions and staff members' and workers' motions; to handle other matters entrusted by the workers' congress.

Members of specialized groups are entitled to regular benefits for production or work time they spend on the groups' activities, provided the activities are approved by the factory manager. In general, members of specialized groups are to be elected from representatives of staff members and workers, although they may be appointed from other people with the approval of the workers' congress.

Specialized groups report to the workers' congress.

Article 22. Important issues that need to be resolved during the recess of a workers' congress session are to be discussed and handled by joint meetings of heads of delegations (or groups) of representatives of staff members and workers, and responsible persons of specialized groups which are to be convened by the trade union committee of an enterprise. These issues and their resolutions should be reported to the next congress session for approval.

Responsible persons of the party and administrative departments of an enterprise, or other people concerned may be invited to attend these joint meetings if necessary.

Chapter V. Workers' Congress and Trade Union

Article 23. The trade union committee of an enterprise, as a working organ of the workers' congress, is responsible for the following work:

1. To organize staff and workers to elect representatives;
2. To suggest topics for discussion, and preside over the preparations for the workers' congress and the organization of the congress meeting;

3. To preside over joint meetings of heads of delegations (or groups) of representatives of staff members and workers, and responsible persons of specialized groups;
4. To form specialized groups to conduct investigations and studies, to make suggestions to the workers' congress, to review and supervise the implementation of workers' congress resolutions, to arouse staff members and workers to carry out workers' congress resolutions;
5. To publicize the concept of democratic management among staff members and workers and educate them in this, to organize representatives of staff members and workers to study policies and acquire vocational and management knowledge, to work to raise the cultural level of representatives of staff members and workers;
6. To handle complaints and suggestions from representatives of staff members and workers, and to safeguard their legal rights and interests;
7. To organize other functions to promote democratic management.

Article 24. Trade unions at a higher level have the responsibility to provide guidelines to, support, and safeguard the workers' congress in exercising its functions and powers.

Chapter VI. Democratic Management of Workshops and Work Groups

Article 25. Based on the actual situation, workshops (factory branches) may exercise democratic management over affairs within their authority by organizing a meeting of representatives of staff members and workers, or a workers' congress, or a group of representatives of staff members and workers.

Routine democratic management work of workshops (factory branches) is to be presided over by trade union committees of these workshops (factory branches).

Article 26. Staff members and workers are to participate directly in the democratic management of work groups. Activities of these work groups are to be presided over by the heads of the trade unions and representatives of staff members and workers of these workshops. Elected administrative officers may also take care of routine democratic management of work groups.

Chapter VII. Supplementary Articles

Article 27. These regulations are in principle applicable to state-owned communications and transportation, postal and telecommunications, geological, construction, agricultural and forestry, and water conservancy enterprises.

Article 28. These regulations are to be interpreted by the All-China Federation of Trade Unions.

Article 29. These regulations are to be enforced as of 1 October 1986.

/8309

CSO: 4006/353

LABOR

HUBEI TRADE UNION FEDERATION MEETING ENDS

HK301559 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 29 Dec 86

[Text] At the fourth meeting of the sixth provincial federation of trade unions which concluded today, provincial party committee Deputy Secretary Zhao Fulin proposed: Trade unions at all levels must grasp stepping up the enforcement of labor discipline and cultivating professional ethnics as the current most urgent task of building the ranks of workers, unite and mobilize all workers throughout our province to uphold and develop the excellent situation in stability and unity, and contribute toward the doubling of our province's national economy for the second time.

Zhao Fulin emphatically pointed out: In the wake of the penetrating development of reform and economic construction, the role of trade unions will become greater and greater and their tasks heavier and heavier. At present, trade unions at all levels must seriously study and implement the resolution of the 6th Plenary Session of the 12th CPC Central Committee, firmly grasp the overall arrangements for socialist modernization, adhere to the principle of regarding economic construction as the center, vigorously take part in and promote all reforms, and really step up the building of spiritual civilization of the ranks of workers. At the same time, they must do well in their own reform and building and strive to ensure that the mass organizations are run in a democratic way by the masses.

The fourth meeting of the sixth provincial federation of trade unions also discussed views on stepping up the building of spiritual civilization of the ranks of workers and adopted a decision on striving to create the homes for advanced workers. The comrades present at the meeting unanimously agreed to Comrade Zhang Tianlin's request to resign the chairmanship of the provincial federation of trade unions, elected Comrade (Tang Junde) chairman of the provincial federation of trade unions, and additionally elected Comrade (You Tiansheng) as a vice chairman and Comrade (Zeng Shibao) as a Standing Committee member of the sixth provincial federation of trade unions.

/8309

CSO: 4006/353

LABOR

LABOR CONTRACT SYSTEM MERITS, PROBLEMS DESCRIBED

HK112301 Beijing JINGJI GUANLI in Chinese No 12, 5 Dec 86 pp 24-27

[Article by Cao Shengdu (2580 3932 1795) and Wang Yuejin (3769 6460 6651):
"There Are Many Merits and Problems in Implementing the Labor Contract System--
An Investigation on the Trial Implementation of the Labor Contract System at
Shanxi Polyamide Fibre Factory and Yuci Cloth Weaving Manufactory Is Conducted"--
edited by Huang Weilin (7806 0251 2651)]

[Text] In conjunction with the Prefectural Labour Bureau, the Yuci Labor Bureau and comrades from the Economic Committee, our Jinznong Prefectural CPC Committee has recently convened separate forums for various levels of staff including factory and middle-level cadres, team leaders and contract workers at both Shanxi Polyamide Fibre Factory and Yuci Cloth Weaving Manufactory. The topic of discussion is the trial implementation of the labor contract system since 1984. Merits and problems arising from the trial implementation of the labor contract system as well as suggestions for improvement have been touched upon in the discussion. Shanxi Polyamide Fibre Factory is an enterprise under the direct administration of the Textile Department of the Shanxi Province; its line of business lies mainly in the manufacturing of polyamide silk and cloth and it now employs a total workforce of some 2,000. From 1984 onwards it had already recruited 222 young people awaiting employment in Yuci city as contract workers. Yuci City Weaving Manufactory is under the administration of the Yuci city Economic Committee. Its scope of business lies in manufacturing export items, like vinylon and cotton blend cloths. It now has a workforce of 800 and 120 contract workers have been recruited since 1984. When recruiting contract workers both factories adopt the same policy of "open recruitment for all and selection after comprehensive assessment," and 3 or 5 year employment contracts are signed with the selected candidates. After undergoing a training programme and on-the-job practice for a period of 6 months to a year, most of the contract workers will be confirmed as second-level workers. Their wages are slightly higher than those of the permanent workers in the same grading while all other remuneration and fringe benefits remain the same. In the discussion overall comments are good. People believe that reforming the permanent employment system and implementing the labor contract system, which are essential parts of the economic system reform, can help resolve the problem of productivity, cater to the urgent needs of promoting commodity production as well as lay the objective requirements for the establishment of socialism with Chinese characteristics. What has been voiced in the discussion is listed as follows.

Many Merits

The implementation of the labor contract system as evidenced by its trial in the two factories is the most effective means and method for putting labor and the means of production together. It overcomes such drawbacks of the permanent employment system as the exercise of tight control over appointments and dismissals, and the practice that once a person is assigned to a post he will stay in it forever. Apart from the above, it bears the following five merits too.

1. Help enterprises assume power in staff selection.

The trial implementation of the system in the two factories illustrates clearly that if an enterprise is to become an independent, self-managed and financially responsible commodity manufacturer and business runner, the powers that it needs to assume are not only those in production management, but also those in staff selection. The implementation of the labor contract system does to a certain extent raise the selection power of the enterprise. Those who are required for production can come in and participate while those who are not can leave. This helps to maintain a reasonable flow within the structure of the labor force and to organize production in accordance with the set quota and the number of staff designed to be employed in the operation. It is believed that both work efficiency and economic gains will be increased in this way. The mobility and stability of the labor force can also be dialectically united.

2. Help people to choose jobs; facilitate a reasonable flow of human resources.

In our past labor system, once a worker was employed, he would become attached to the enterprise and department concerned; such an arrangement in fact ties the staff to the enterprise. This type of human relationship is actually a contract without a contract, somewhat similar to the personal contract of the feudal society. With the implementation of the labor contract system people can choose jobs according to their special skills, interests and health conditions. If the post does not match their expectations, they can always resign and turn to another job that can bring their talent into fuller play. The employing unit can be rid of an excessive and inappropriate labor force in accordance with its practical conditions. In this way, relative stability is maintained for the majority of the working team while a reasonable labor flow is made up for the minority.

3. Help open avenues for employment; promote the development of a diverse economy.

Under the permanent employment system a person is regarded as "blissful" if he becomes a permanent worker. People awaiting employment look to the state for the allocation of jobs. This suppresses the drive and initiative of the public in opening avenues for employment and is also unfavorable to the exploration of employment opportunities in various economic units, like collective enterprises, county enterprises, associated bodies and individual bodies. The development of a diverse economy is hindered in this way. Though our country is vast in territory and abundant in resources, it has a large

population and we cannot entirely rely on it for resolving the employment problem as it is also subject to restrictions in the availability of natural resources and funds, etc. Our nation's employment problem induced by the plentiful supply of labor can only be solved by the co-existence of four kinds of enterprises, namely incorporated, collective (including county collective), partnership and individual as well as the implementation of various types of ownership modes. With the implementation of the labor contract system, workers are freed from the restrictions of the ownership system and will no longer be subject to the barriers lying between departments and regions. They can choose whatever jobs suit their age the most. The highest yields are thus achieved and they are rewarded accordingly. Other ownership modes will not be beaten down by the "superiority" of the economic system under the whole people's ownership; they will remain in the same status as the latter in the recruitment of workers. By putting into practice a diverse economy, competition among the various economic structures and systems will require continuous development and expansion, thus constituting good returns both economically and socially.

4. Inspire workers to strive for future advancement; raise the standard and quality of the working team.

Under the permanent employment system people do not care about their performance since they have the "iron rice bowl" in hand and are therefore entitled to "eat from the same big pot." "They grow to have very deep-rooted "dependent mentalities" and become so mediocre that they are not only "ignorant and incompetent" but are also "unwilling to strive for future advancement." The implementation of the contract system helps people to realize that "knowledge, skills, and competence" are most important overall and capable people are welcomed. Young workers are inspired to work hard and keep forging ahead; an increasing tendency to study culture, technology, management and law is thus built up.

5. Help clear away the unhealthy tendency that takes place in the course of recruitment; facilitate an improvement in the party's style.

In our past permanent employment system unhealthy tendencies take place in implementing measures like "internal recruitment" and "replacement." Anyone who has power, channels, and money can sneak into an enterprise despite the level of his mentality. But those who do not have power, channels, and money will never be accepted even if they are competent and knowledgeable. It is rather difficult to crush such unhealthy tendencies as securing advantages through pull and establishing relationships with influential figures that occur in the recruitment proceedings. Through the implementation of the labor contract system the unit assumes power in the selection of candidates while the worker has his right in choosing jobs; both of the two parties are therefore autonomous in making their respective decisions. From now on, with the implementation of the insolvency law, enterprises, factory directors, and workers are all in the same boat encountering the same fortune. In this way, the employing unit will slam the "back door" shut and open the "front door" by conducting public recruitment assessment. Only the best will be recruited and the enterprise will no longer adhere rigidly to a single format in using the

abilities of its staff. Those unhealthy tendencies occurring in the course of recruitment are thus cleared away and a remarkable improvement is made in the party's style.

Many Problems

Being a newborn thing, not only is the contract system unfamiliar to people but it is also not well-developed so that quite a number of problems arise during its implementation.

1. Problems arising in enterprises.

A. A high mobility rate in the working team.

Out of the 220 contract workers recruited by the Shanxi Polyamide Factory, only 196 have stayed as of July this year while 24 workers have already left. As for the Yuci Cloth Weaving Manufactory, 26 out of 120 contract workers have gone and only 94 have stayed. The leadership of the two factories reflects that as the contract system allows free movement of workers there will be a continuous tendency for workers to leave. All those who leave are skilled workers; they have mastered considerable expertise and can handle difficult situations on their own. If such an out-flow of workers goes on, would it not be possible for factories to be turned into training schools for workers?

B. Production cannot be secured.

Presently, most of the contract workers in the two factories are recruited as second-level workers with an average monthly income of around 60 to 80 yuan. Those who master the production techniques are not interested in such a meagre remuneration. As "money-mindedness" becomes widespread in society, people find money more attractive than anything else. "Work where the pay is more handsome" has become a guide to some people in deciding whether to turn to a new job. After a contract expires some contract workers work in collective enterprises while some work in county enterprises; some even establish themselves as individual enterprises or join with others to form partnership enterprises. The leadership of the two factories said that it costs 3,000 to 4,000 yuan to train a skilled technician. As there is one cavity for every turnip, several machines have to be suspended whenever a skilled technician resigns. If such conditions continue, how can production be secured?

C. Factories are not relieved in entrusting contract workers with important responsibilities.

"Contract work, work that is not guaranteed" is the thought of some of the workers. With such an idea in mind, they carry out their duties perfunctorily day after day and will only think about the next place to go when their contract expires. Enterprises find contract workers unreliable and therefore are not relieved in placing them in important positions. A cadre of Yuci Cloth Weaving Manufactory said that as contract workers are young, healthy, and fast learners, important tasks should have been assigned to them. The fact that most of them just regard the factory as a temporary shelter makes the

factory helpless in coping with the situation for the factory is not relieved in entrusting them with heavy responsibilities on the one hand but on the other it is not that hardhearted as not to entrust them with heavy responsibilities.

D. Gains will not be high.

Since some leaders cannot appropriately direct contract workers who have various ideas and plans the special functions of contract workers cannot be brought into fuller play while economic gains cannot be raised remarkably. In addition, the economic gains of enterprises will in fact be affected if we take into account the factors listed as follows. Enterprises are not experienced in the implementation of the contract system and time is short for the trial period. Training costs enterprises a lot of money since apprentices produce substandard goods during their apprenticeship. They will leave the factory once they have mastered command of the production techniques.

E. Enterprises have heavy financial burdens.

All together there are 50 contract workers leaving the two factories which have spent 150,000 yuan for training them as skilled labors. The economic loss is severe while the out-flow of workers continues. Contract workers will still leave even if their request for allotment of a residence is satisfied. With such a high mobility of workers the factory has to recruit ceaselessly; it continues to construct quarters for the recruited workers yet the demand cannot be met.

F. Cannot build up ideological values for the leading figures.

The leadership of Polyamide Fibre Factory claims that since permanent workers are not allowed to leave without the prior permission of the factory they have to rely on it for their livelihood and regard it as their home. However, with contract workers they will turn to another job once they are dissatisfied with the existing working environment. Most people are interested in "what yields the best economic return" and set their eyes on "where there is prosperity." The factory will never be able to make them stay once they have decided to go. A system that allows such free movement can hardly build up a sense of responsibility and ideological values for the leading figures.

2. Workers have worries.

A. Sense of constraint.

For the time being, since society, family cannot correctly understand the labor contract system, they thus view contract workers in an unfavorable light. Some people say: "Contract work is temporary work where there is no guarantee at all. Those who take up such work have to suffer throughout their lives." Contract workers also find themselves "inferior" to others and some of them say: "We are second-class citizens in the way that people prefer not to choose

us as their husbands or wives and we have to worry about questions like health and livelihood after retirement." As reflected in actual situations, they are not entrusted with important tasks and very often they will be knocked out of their jobs if a mistake is made. They therefore become overcautious and dare not take great steps in their work.

B. Nervousness

Contract workers and their parents, relatives, and friends are all very nervous, worrying that the workers will be sent back home upon the expiry of their contract. Under the present unfavorable employment conditions, the general cadre workers who find themselves powerless are overwrought and laden with anxieties for they fear that their children will become unemployed and lose the rice bowl which is so difficult to obtain. Workers who do not have special skills worry the most. In the first place, they fear that they will not be employed any longer if they make a mistake. In the second place, they fear that they cannot escape the fate of dismissal if enterprises reduce the number of workers. In the third place, they fear that they cannot find another job if their enterprise becomes bankrupt. Therefore, there is always a heavy load on their mind and they are in a state of nervousness.

C. Anxiety

There are five things that contract workers worry about most. First, a contract may not be renewed upon its expiry. Second, who is to take care of them when they get ill, and especially when they become handicapped or suffer from chronic diseases? How will they be treated? Third, will there be any enterprises willing to employ them when factories do not want them because they are over 40, or in other words, because they have already gone through the golden time of their lives? Fourth, who is going to be responsible for their livelihood when they are aged? Are they to rely on the social security funds contributed by the enterprise? What can they do if the enterprise becomes bankrupt? Can they sustain their livelihood? Fifth, female workers have more worries. They are not sure whether quarters will be allocated to them when they get married, and their livelihood will always remain a problem if they have children and enterprises do not renew their contracts with them.

3. There are still divergences of opinion.

In an investigation it was found that there are still divergences of opinion among cadres and workers with regard to the implementation of the labor contract system.

A. On which employment system to use.

Which is better? An "iron rice bowl" or a "clay rice bowl?" In other words, is the permanent employment system better than the contract system or vice versa? Some people think that the permanent employment system is better because whether an enterprise can do well and be dynamic, and whether the initiative and creativity of the workers is aroused depends on the standard of the leadership and not the type of employment system applied. In the past,

many enterprises did well; their staff was filled with working drive and both the product quality and economic gains were high. The type of employment system that these enterprises apply is the permanent employment system. In the era of "millet plus rifles," many factories were established by the Eighth Route Army. Workers were poorly paid and there was no bonus at all. But with ideological beliefs in mind, they were able to bring prosperity to these factories. They believed that in a socialist state people had a sense of attachment and faith to both the party and government. Socialist enterprise was the "backing" of the workers. Holding such an "iron rice bowl" in hand, people did not mean to run the enterprise at a loss or make it bankrupt. The key to why we could do such and such in the past but now lay in the leadership. There is another opinion claiming that the blow to the "iron rice bowl" and the advocacy of the "clay rice bowl" is a product of the commodity economy. In the future, when various types of economies co-exist market competition will be keen. Competent workers who can hardly make a living in this unit today can go to work in another unit tomorrow. If a "clay rice bowl" is broken, another "clay rice bowl" will be made as a replacement; thus a rice bowl is often broken, often replaced and there is rice available all the time.

B. On the mode of implementation.

Which is better? Various systems or a single system? In other words, is the implementation of a single system--the labor contract system--better than that of the coexistence of various systems or vice versa? Many comrades believe the implementation of various systems is good. The reason is that in an enterprise, especially in a large or medium-sized one, there should be the co-existence of permanent workers, contract workers, and temporary workers. If temporary workers perform well, they can be promoted to contract workers who will in turn be promoted to permanent workers upon satisfactory fulfillment of duties. On the contrary, if permanent workers perform badly, they will be demoted to contract workers who will further be demoted to temporary workers should there be no improvement in their performance; temporary workers will be dismissed if their performance becomes worse. In this way, workers will have hopes and every reason to work hard and they will be positive toward both the ideological thought and their work. A few comrades believe that it would be easier to manage if all workers are under one single system--the contract system. There is no difference in grading and seniority among the workers and such phenomena as permanent workers are more superior while contract workers are more inferior will not occur. Both the senses of "superiority" and "inferiority" can be eliminated.

C. On the concluding of contracts.

Which is better? A longer period or a shorter one? Most workers think it would be better if the contract period could be longer; they would find it even better if they could conclude a 20 or 30 year employment contract. If the contract period is longer they can feel at ease and concentrate on their work and do not need to worry any more. The leadership of some factories also believes that a longer contract period helps in stabilizing the working team. The effect is more remarkable in stabilizing the technical workforce;

workers will not go away once they are trained and factories are not turned into training schools. A few workers hold a different view and believe that it would be better if the contract period were shorter. As the employment duration is short, one can go away immediately if he finds the working environment, job nature, and remuneration unsuitable for him. It would be much better than dawdling aimlessly in the enterprise. The leadership of some factories also finds a shorter contract period better. If there is a production bust, a shortage of raw materials for production, or no market for the manufactured goods, the factory can unload part of its heavy "burden" by dismissing some of the workers.

D. On the working team.

Which is better? A mobile working team or a stable one? The leading cadres of the two factories prefer a stable one since it costs enterprises plenty of time, energy, and money to conduct the whole process of recruiting workers and training them for carrying out important tasks. If workers stay in the enterprise for several years, not only can the enterprise secure its production, but it will not be running at a loss too. No enterprise can afford conditions under which workers leave once they have undergone proper training. However, if the working team becomes highly mobile, the future and the fate of the enterprise will be affected and it is dreadful to contemplate such a consequence. Few comrades prefer a mobile working team. It is believed that staff mobility helps facilitate competent people to work where there are ample scopes for their abilities; more wealth is thus brought to society. It also helps enterprises to recognize the importance of knowledge and competent people. In this way the staff will strive to enrich their knowledge to upgrade their working expertise.

We believe that the implementation of the labor contract system is a great change in the labor system of our nation. It concerns both the future and the fate of the enterprise and its staff. While implementing the labor contract system the following reforms should be conducted properly. Take the wage system as an example. Workers should do what suits their age most so that they can contribute most and be rewarded accordingly. If reforms in areas like fringe benefits, remuneration, social security, management of people awaiting employment, methods of transfer, industrial accident indemnity, and death compensation, etc., do not catch up with the pace of the labor contract system it will be really difficult to make the implementation of the labor contract system a success.

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LABOR

TRADE UNION CIRCULAR ON ECONOMIC TASKS

OW092355 Beijing XINHUA Domestic Service in Chinese 0304 GMT 8 Feb 87

[Text] Beijing, 8 Feb (XINHUA)--The All-China Federation of Trade Unions recently issued a circular calling on the masses of workers and trade union organizations at all levels in the country to take immediate action to launch the campaign to increase production and practice economy and to increase revenues and cut down expenditures.

The "circular" calls on trade union organizations and workers to clearly define targets and map out plans and measures to increase production and practice economy and to increase revenues and cut down expenditures.

The circular says: In launching the campaign, it is necessary to pay special attention to the focal points; that is, to increase the production of marketable goods and the financial revenues of the state and to improve product quality, lower material consumption, speed up the circulation of funds, and reduce spending in all fields. In order to help enterprise administration work out plans and measures to carry out the campaign and exercise effective management, trade unions at all levels should identify problems, examine loopholes, and offer good advice in light of the actual situation in each unit. Industrial and transport enterprises should aim to increase designs and variety, improve product quality, lower cost and material consumption, cut down administrative expenses, and stop deficits; commercial enterprises should strive to lower circulation expenses and stop deficits; and capital construction enterprises should improve engineering quality and reduce the scale of construction. It is necessary to gradually assign these tasks to all work teams and groups and to make sure that everyone of them, as well as every worker, strives to fulfill the tasks. Trade unions should continuously review experience in order to promptly identify and solve problems.

The circular also calls for launching an extensive socialist emulation drive focused on increasing production and practicing economy and on increasing revenues and cutting down expenditures. While concentrating efforts on increasing designs and variety and the production of marketable goods, improving quality, lowering consumption, retrenching expenditure, and raising economic efficiency, the emulation drive should also stress the importance of observing labor discipline, cultivating sound professional ethics, and doing work according to norms.

The circular also encourages suggestions for rationalization and activities of technological innovation and cooperation. Mass technological activity is an important means for developing intellectual resources, tapping the potential of enterprises, and successfully carrying out the campaign.

The circular urges all trades and professions to intensify the enforcement of labor discipline and to formulate ethical standards for each trade and profession so that all workers will conscientiously abide by discipline, enhance their professional sense of responsibility, and dedicate themselves to their job, thereby serving the people, holding themselves responsible to the community, and influencing the whole society with a brand new mental outlook in the campaign.

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LABOR

BRIEFS

QINGHAI LABOR SYSTEM REFORMS PROBLEMS--Reform of the labor system are proceeding steadily in Qinghai, but some problems also exist, which should attract the attention of the departments concerned. A responsible comrade of the provincial labor and personnel department recently pointed out at a provincial report meeting on labor system reforms that at present, some areas of Qinghai are using in disguised form the old method of registering names based on people's recommendations instead of applying the regulations on facing society, and practicing open recruitment, all-round examination, and selection of the best in their labor recruitment work. Some places are still engaging in internal recruitment in a disguised fashion. These methods are wrong. Contract workers already recruited in this fashion cannot revert to being permanent workers. Such reversions that have already occurred must be resolutely corrected. [Excerpt] [Xining Qinghai Provincial Service in Mandarin 2300 GMT 3 Jan 87] /8309

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TRANSPORTATION

MANAGEMENT OF TRANSPORTATION SECTOR

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 9, 5 Sep 86 pp 30-32
[Article by Li Zhi [0500 4249], edited by Huang Weilin [7806 2651 0251]:
Preliminary Discussion of Management of Transportation Sector"]

[Text] The "CPC Central Committee Proposal on Establishing the Seventh 5-Year Plan for the National Economy and Social Development" points out that "specialized economic management departments must move from hands-on management of the production and operation of subordinate enterprises toward management of the entire sector."

China's government transportation departments are specialized economic management organs which oversee both highway and maritime transportation. They must follow the direction of this reform, improve management of the transportation sector, and gradually foster a turnaround in management functions.

I. Where To Start the Implementation of Transport Sector Management

In national economy reproduction, transportation is a production department which belongs to the realm of circulation. The targets of its labor are goods and passengers in society which require transportation; the product of its labor is the movement of these goods and passengers. The business of operating vessels and vehicles must be linked up to the goods and passengers supplied by society before real economic results in ton/kms, person/kms, or capacity/tons at ports can take shape. Production occurs along a fixed route, is mobile and spread out, with many stops stretched along a long line. Its scope of activities is broad, and production links are many. It is strongly socialistic. These characteristics and features are the foundation which sets apart the economy of the transportation sector from that of other sectors, and is the departure point from which sector management and sector economic research must be carried out.

Ever since the 3d Plenum of the 11th CPC Central Committee, China's economy has rapidly developed, commodity circulation has greatly increased, and the circulation cycle has quickened, yet as township and town enterprises thrive, continuously improving standards of living, medium- and short-haul passengers and freight volume have increased sharply, throwing demand and supply badly

out of balance. Simply relying on the capabilities of specialized transport departments is not enough to satisfy the demands of economic construction and social development. The enthusiasm of various sectors must be put into play to accelerate the development of transport capability. Over the past few years, driven by this economic trend, there has been a rapid increase in vessels and vehicles owned and operated by each economic department, social group, and individual or joint household. According to incomplete statistics, there are now 290,000 motor vehicles and about 230,000 vessels operated by individual or joint households. This development has given rise to a new situation: the original transportation structure has undergone an enormous change, as holdings of vessels and vehicles by specialized transportation departments have increased somewhat in absolute terms compared to the past, yet in relative terms have substantially decreased. On the one hand, transportation departments must attach full importance to the vast store of transport capability which exists and is developing in various sectors of society by putting into play the key role of specialized transport departments; on the other, there is an urgent need to step up guidance, accommodation and coordination on a macro scale so that each can find its own niche, and mutually coordinate to form a more perfect all-round transport capability. This trend objectively requires that government transport departments implement reforms in the management system; there must be a change in management scope from largely emphasizing vertical enterprises to emphasizing total sector management. There must be a shift in direction of management methods from direct management of actual business and production activities toward indirect macroeconomic control.

II. Goals and Tasks of Sectoral Management

In terms of subordinate relationships, China's transportation sector is at present multilevel; in terms of its economic nature, a potpourri of coexisting ownership systems; and in terms of management methods, multi-channel. Transportation departments at each level of government separately manage their own groups of transport enterprises. Some of these enterprises may be run by the state; some collectively by laboring people coexisting with a large number of private entrepreneurs, and a few new types of integrated bodies. One group is managed directly by a transportation department; another, owned by various economic departments and social organs. Methods of transportation and levels of management vary widely. The various types of transport capabilities which exist and are developing reflect the current level of China's productivity, and are objective requirements. Each has its respective position and role and yet all are an organized, integral part of China's transportation sector, and thus should be within the scope of transportation sector management.

The underlying objective and task of the transportation sector management is to adapt to the greatest extent possible to national economic development and requirements to attain a "smooth flow of goods and convenience for people." Not only must a certain volume of passengers and cargo be met, the quality and safety of transport must also be guaranteed. The realization of these objectives involves development of transportation capabilities; objectives and tasks which should be struggled for will be discussed here exclusively from the viewpoint of management.

First, in macro terms, plan and guide economic development of the transportation sector. Through investigation and analysis of gross transport volume, and based on financial, material and personnel constraints of the state, determine a sectoral economic development program, establish a fixed historical time frame for the direction, emphasis, scope, and pace of development of transportation, and rationally adjust the structure and layout of transportation according to China's natural conditions and locations of economic regions, gradually forming a linked, coordinated transport network with comprehensive capabilities. Organize and implement key construction projects and scientific and technical projects, and continuously improve levels of modernization of China's transportation. Promulgate necessary command plans for transportation production to guarantee that key state materials, foreign trade materials, and special requirement materials are completely transported.

Second, bring into line the internal relationships of transport departments, striving to attain the best economic results. The economic results of transportation can generally be divided into three levels: social, sectoral, and enterprise. Social economic results refers to whether or not the functions of transportation produced for the development of the entire national economy can adapt to the demands of economic development. This is the fundamental task of transportation. Regardless of circumstances, social results involving the whole national economy must be given first priority. Sectoral economic results mean how internal departments of each of the five modes of transportation will coordinate so as to enhance comprehensive transport capabilities. Enterprise economic results mean the completion of various economic targets, and are the base for the two economic results mentioned above. Were enterprise economic results poor, there would be nothing further to say about the two other economic results. These three levels of economic results are at once different yet related, unified yet contradictory, mutually restrictive yet mutually dependent. For example, in recent years, there is the problem of port congestion, with large numbers of vessels waiting for berths. From the standpoint of harbor enterprises, this means an abundant supply of goods and the selection of better quality goods to be loaded or unloaded first, resulting in higher economic gains. But from the standpoint of the entire nation, it is an enormous loss to shipping units. One of the key objectives and tasks of sectoral management is that overall coordination must be well executed to obtain prime conditions for all three levels of economic results.

For optimal coordination of internal relationships in transportation, general and specific plans must be accurately mapped out on the basis of investigation and research, to guide each mode of transport, each transport department and each transportation enterprise in following common principles, and to link economic results of the whole with economic results of the part, truly "attaining control over the large and relaxing the grip over the small" in search of the best overall and individual economic results.

Third, offer a benign environment and excellent conditions for the development of transportation. First, transportation legislative work should be stepped up. Transportation affects every corner of society and countless households; furthermore, internal division of labor, coordination, balance and links are

extremely complicated. To guarantee smoothness of transport routes and safety and quality, it will not suffice to rely upon administrative methods and a few contingency plans. Transportation's legal system must be amplified, and various transportation laws, regulations, articles, and corresponding measures of implementation perfected. Make use of a legal framework to standardize relationships and actions, and have everyone obey the laws. Only thus can a favorable climate and good conditions be offered for the development of transportation business. Next, various services need to be well executed for the development of transportation business. This means primarily the promotion and development of brain power to enhance the cultural and technical quality of transportation teams, and the acceleration of scientific and technical work to guarantee advanced technology for the modernization of transportation. Do a good job in information exchange, and provide various analyses fixed in quantity and in nature as well as advanced domestic and foreign technologies and management experience to guide and direct the development of transportation.

III. The Main Bodies of Sectoral Management and Management Methods

The main bodies of management in the transportation sector are the transportation departments at each level of government. China is a socialist country; the government not only carries out the functions of political management but also of economic management. The superiority of the socialist economic system over other economic systems is mirrored basically in the implementation of unified decisions and policies, planning, coordination and management of the national economy. Along with the development of socialist productivity, the scope of socialist production grows increasingly larger, social divisions of labor increasingly finer, and economic liaison increasingly complex. This type of socialized mass production objectively requires that government organs play their roles to the fullest extent in the management of the economy. China is still a developing nation. Only by correctly playing the state's role of unifying organizations and leading the economy can the limited finances, materials, and human resources be better accumulated to guarantee that strategic goals of overall economic construction and social development come to fruition. Transportation departments at various levels of government have been mandated by the state to serve as functional organs in the management of the transportation sector.

Because government transportation departments are the main bodies of management of the transportation sector, it is crucial to know which modes and methods these departments must utilize to implement sectoral management. In the past, each government transport department was more into microeconomic, direct control, but from now on, they must gradually shift in the direction of macroeconomic, indirect control. In management methods, there must be better use made of comprehensive economic administrative and legislative measures.

When departments are utilizing these measures to carry out sectoral management, distinctions must be made in the breadth and level of management. China now has five levels of administrative leadership in transportation departments: the central level; the provincial, municipal, or autonomous level; the local (city) level, and the county and township levels. These five

levels must have clear divisions of labor and spheres of responsibility. The policy decision levels for implementing sectoral economic management are the Ministry of Communications and the provincial, municipal and regional transportation departments (bureaus) which generally no longer directly manage enterprises but now must more vigorously emphasize total planning of sectoral economy, perfect the transportation legal system, carry out general and specific policies, etc. Local (city) level transport administrative departments transferred to key cities along with enterprises shoulder the responsibility of authorized management of transport enterprises; naturally, this management is not the type which in the past directly coordinated the actual production and business of enterprises, but the type which must guide enterprises to enliven the economy, coordinate relations between enterprises, solve related problems in enterprises in a timely manner, and improve services for enterprises. County and township transportation departments are levels for implementation, mainly responsible for concrete implementation of transportation tasks in these areas based on the overall transportation plan and general and specific plans of superior levels. For transport capabilities of different characteristics, on different levels, and in different channels, there should be differences made in the breadth of management, which can truly permit unity in sectoral management yet can guarantee in part that individual transportation capabilities and enterprises possess variety, flexibility, and aggressiveness in production and operations.

The realization of sectoral management in transportation is an important facet in the reform of the transportation system, and is a new undertaking. We must steadfastly adhere to the direction of reform, steadfastly hold to the principle of seeking truth from fact, and relentlessly explore, develop, and advance in the realization of reform.

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